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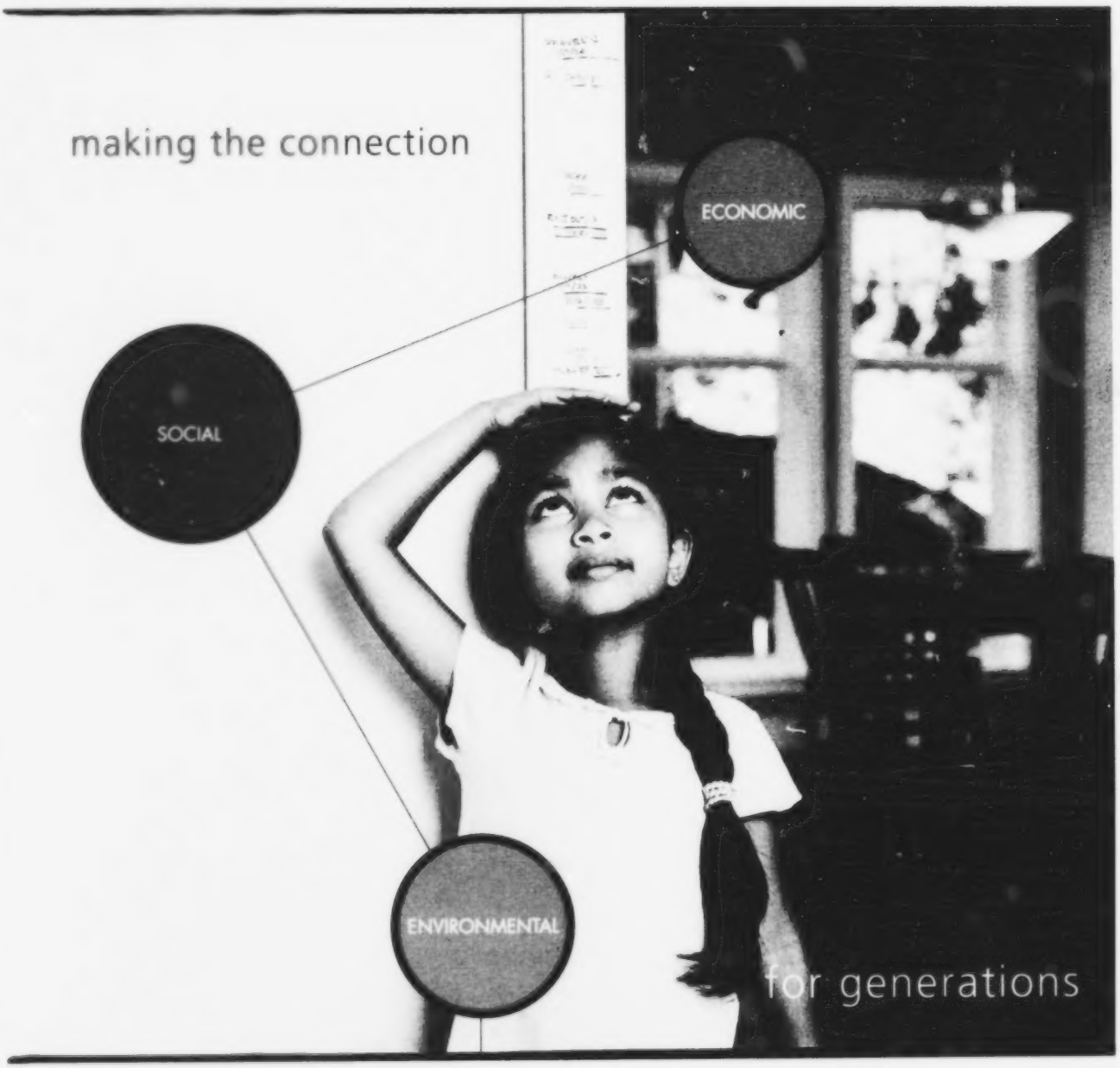
making the connection

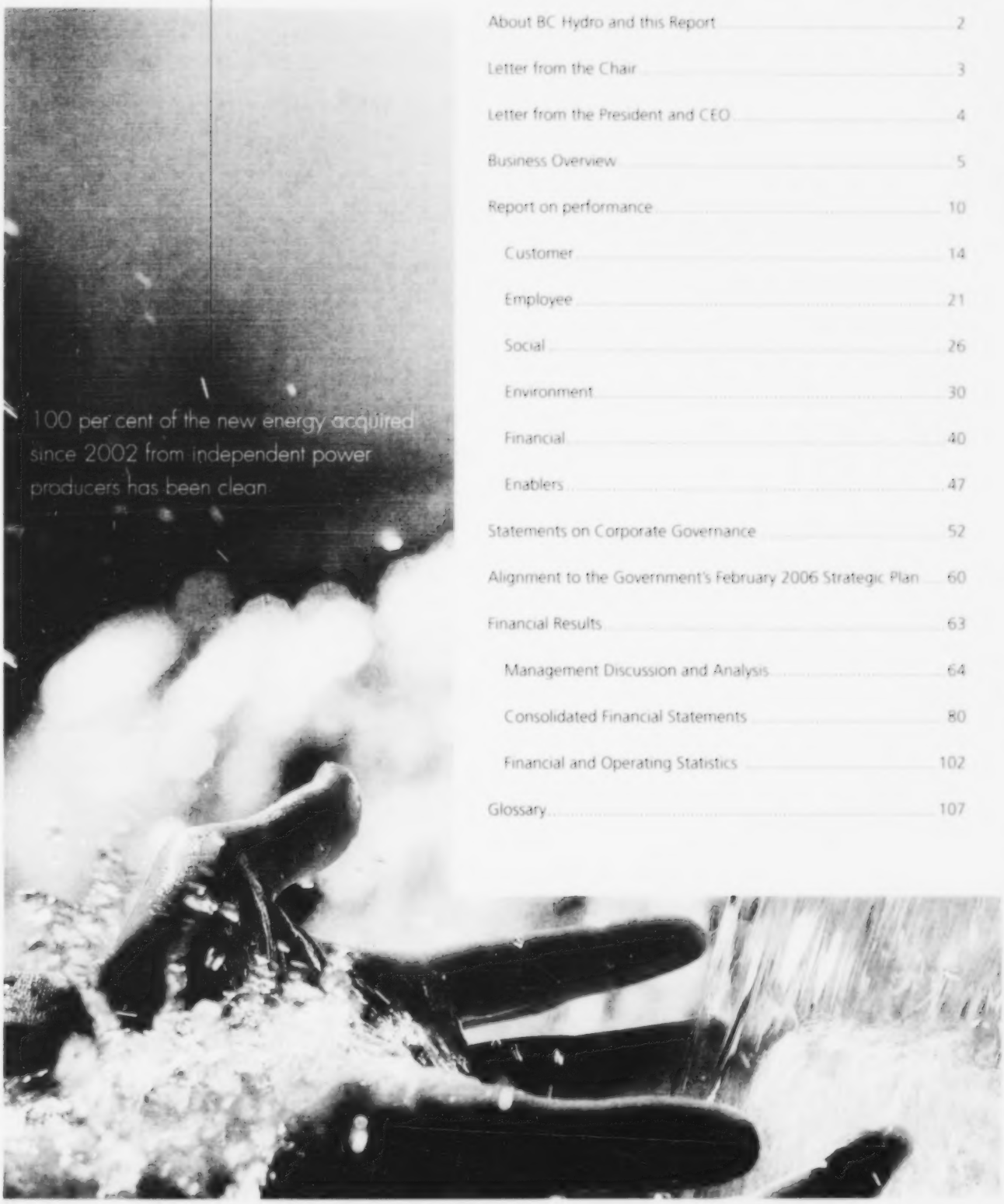


REPORTING ON OUR TRIPLE BOTTOM LINE PERFORMANCE

BRITISH COLUMBIA
The Best Place on Earth

BC hydro

2007-01301/



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About BC Hydro

BC Hydro is a commercial Crown corporation owned by the Province of British Columbia and regulated by an independent body, the British Columbia Utilities Commission (BCUC). BC Hydro is one of North America's leading providers of clean, renewable energy, and the largest electric utility in British Columbia, serving 94 per cent of the province's population.

ABOUT THE REPORT

This report covers our performance for the period April 1, 2005, through March 31, 2006, and integrates the Annual Report with our triple bottom line report on performance. Reporting on sustainability reflects BC Hydro's commitment to balance business across the three bottom lines: environmental, social and financial.

The performance targets for Fiscal 2006 referenced in this report were those set out in our September 2005 Service Plan. Targets for Fiscal 2007 and beyond can be referenced in our Fiscal 2007 Service Plan, which was released in February 2006. The Service Plan provides a high-level, strategic look at our business and sets out the targets and measures by which our performance can be evaluated. This will be the first year that the financial results of the British Columbia Transmission Corporation's (BCTC) are not included in the BC Hydro Annual Report. This change was effective April 1, 2005, and therefore, its business results reflect this change. BCTC is operationally and financially independent of BC Hydro; however, BC Hydro still owns the transmission system assets.

To meet the requirements for both annual and triple bottom line reporting, this report has been prepared in accordance with British Columbia's *Budget Transparency and Accountability Act* and Canadian generally accepted accounting principles (GAAP), and in accordance with the Global Reporting Initiative (GRI) 2002 Guidelines. The guidelines set out a series of recommended performance metrics that represent a balanced and reasonable presentation of economic, environmental and social performance. In addition to the measures found in the Annual Report, BC Hydro tracks and reports performance against the GRI recommended metrics where possible, and publishes the results online in the BC Hydro/GRI Comparative Index. A comprehensive list of performance data that supports BC Hydro's commitment to triple bottom line reporting is available in the GRI Comparative Index online at BC Hydro's website (http://www.bchydro.com/info/reports/reports11858.html).

The 2006 BC Hydro Annual Report was prepared under the BC Hydro Board of Directors' direction in accordance with the *Budget Transparency and Accountability Act* and in accordance with the Global Reporting Initiative 2002 Guidelines. The Board is accountable for the contents of this report, including the selection of performance measures and targets, and how the results have been reported. The information presented reflects the actual performance of BC Hydro for the 12 months ended March 31, 2006. All significant decisions, events and identified risks as of May 31, 2006 have been considered in preparing this report.

The information presented is prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of our actual performance in relation to our Service Plan. The measures presented are consistent with BC Hydro's values, purpose, goals and objectives, and focus on aspects critical to BC Hydro's performance.

The BC Hydro Board is responsible for ensuring that internal controls are in place to ensure that performance information is measured accurately and in a timely fashion. This report contains estimate and interpretive information that represent the best judgment of management. Any significant limitations in the reliability of data are identified in the report.

The 2006 fiscal year was a challenging yet rewarding one for BC Hydro. We had a number of key accomplishments in the year, led by the submission of our Integrated Electricity Plan (IEP) to the British Columbia Utilities Commission (BCUC) in March 2006. This plan acknowledges the competitive advantage that our legacy of low-cost, reliable electricity has played in the province over the years. At the same time, the plan also highlights the growing "gap" between existing supply and customer demand, and the need to review the options to fill the gap in order to preserve the province's competitive advantage in the years ahead.

This past year we also reached a negotiated settlement with intervenors and the BCUC with respect to our 2005 Resource Expenditure and Acquisition Plan (REAP). The settlement, in turn, allowed BC Hydro to move ahead with another Call for Tenders for bids from private sector power developers, targeted at acquiring approximately 2,500 gigawatt hours (GWh) per year of firm energy from large projects (a capacity of 10 MW or more) and 200 GWh per year from small projects (a capacity of greater than 0.05 MW and less than 10 MW) by November 2010.

And finally, our Power Smart conservation programs continued to deliver cost-effective energy, producing cumulative annual incremental energy savings of 1,957 GWh last year.

Fiscal 2006 also presented some challenges. BC Hydro sadly experienced two tragic employee fatalities in September 2005 and February 2006. Although we have seen an overall improvement in our safety performance, these tragedies have resulted in further enhancements to our safety processes and procedures in order to ensure that we provide the safest work environment possible.

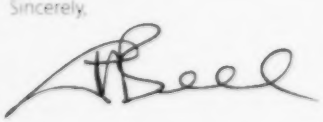
External industry and market developments also impacted our business this year. Volatile energy prices and uncertainty relating to climate change policy continued to be factors that impacted our business. And, with increasing customer demand, we purchased more electricity in the Pacific Northwest market, often at high prices.

Financially, increased energy costs related to acquiring new supply to meet increased load, along with the partial write down of assets at Burrard Thermal Generating Station and further investments in our infrastructure impacted our bottom line.

Finally, I am very pleased to say that, even with these challenges, we were able to complete the final two policy elements related to BC Hydro in the provincial government's Energy Plan: first, introducing a new rate structure to provide better price signals to large electricity consumers for conservation and energy efficiency; and second, allowing large electricity consumers the choice of supplier beyond the local distributor.

This year, then, was another one of challenges and opportunities. We look forward to achieving new goals in the year ahead while ensuring that our customers and the province continue to benefit from sound management of their natural resources.

Sincerely,



Larry Bell

BC Hydro's purpose is simple – to provide our customers with "reliable power, at low cost, for generations." "For generations" is a key part of this purpose. Now and over the long term, we must conduct our business in a way that is financially, socially and environmentally responsible. This report is our accounting of our performance across these three bottom lines for Fiscal 2006.

BC Hydro has identified five priorities for the next three to five years:

- Ensuring a *reliable* supply of electricity for our customers
- Proving exceptional service and value to our customers
- Becoming a top employer by focusing efforts on our greatest resource: *people*
- Providing a *safe* work environment for our employees
- Meeting our key *financial* targets as a Crown corporation and a leading utility in North America

I want to talk about *Reliability* specifically. We need to ensure that we have enough electricity – both energy and capacity – to meet our customers' needs and deliver it with high reliability to customers throughout the province. This partly involves taking care of our plants, dams and generating stations so that we can continue to operate them as efficiently as possible. It is also important to note that in the last five years, BC Hydro has become a net importer of electricity. In order to secure our energy future in this province and future reliability, we have to close the supply gap that has emerged.

This past year, we talked to customers, our shareholder, First Nations and stakeholders about the supply of electricity as part of our 2006 Integrated Electricity Plan (IEP) process. This long-term plan outlines how BC Hydro will meet anticipated customer electricity needs over the next 20 years.

The plan identifies three ways we can close the gap: conserving more through Power Smart activities; working with independent power producers to secure additional supply; and building more supply by upgrading our own facilities and looking at other new options for firm generating capacity. Looking ahead, our challenge is to ensure that the strategies and actions within the IEP are broadly supported and that we are able to close this identified gap through this three-pillar approach.

How do BC Hydro's other four priorities relate to this focus on reliability? Being able to achieve our reliability goal is closely linked to our *Customer Satisfaction* and *People* goals. Our *Customer Satisfaction* goal is to be a reliable supplier–one that is a leader in offering extraordinary value and service to our customers. To accomplish this, we must have excellent staff. Our *People* goal therefore is to become a top employer and to engage our employees in the achievement of our purpose and goals through a focus on teamwork.

Our *Safety* goal is to provide a safe work environment for our people–one that compares with the best performers in any industry. Safety is core to BC Hydro's operations–it guides our decision-making and how we work, and will always be critically important to us given the realities of our business.

Our *Financial* goal is to maintain our existing position of having costs among the lowest in North America and to deliver 100 per cent of forecast net income on an annual basis. We need to be fiscally prudent in order to maintain this competitive advantage and have strategies in place to achieve this goal. Meeting this *Financial* goal must be balanced with reliability, and our impacts on society and the environment. We are committed to being a triple-bottom-line energy company.

At the foundation of these five priorities lie our values: accountability, integrity, safety, service and teamwork. These values guide our work as an organization and will continue to do so as we work to meet our goals in the years ahead. We look forward to the challenges and opportunities ahead, and continue to be committed to providing reliable, low-cost power to our customers for generations to come.

Sincerely,

Bob Elton

business overview

Business Mandate

BC Hydro's mandate is to generate, manufacture, distribute and sell power, upgrade its power sites, and to purchase power from, or sell power to, a firm or person under the terms of the Hydro and *Power Authority Act*.

Our company owns the majority of the transmission and distribution systems that deliver electricity in the province. BC Hydro is regulated by the British Columbia Utilities Commission (BCUC), which is responsible for ensuring that BC Hydro operates in the best interests of our customers while providing a fair return to the shareholder, the Province of British Columbia.

Our company's mandate is fulfilled within the context of the corporate purpose outlined below.

BC Hydro's Purpose

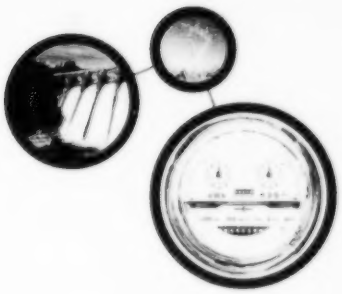
BC Hydro's purpose is: Reliable Power at Low Cost, for Generations.

For Generations confirms BC Hydro's commitment to sustainability in managing our business. This means making long-term decisions and balancing trade-offs along the environmental, social and financial bottom lines.

Reliable Power means that BC Hydro will have the electricity available and delivered to domestic customers when it is needed. It is dependent upon generation supply, transmission capacity and distribution performance.

Low Cost means that our operations are at the forefront of business success. By being fiscally prudent, and always considering environmental and social costs, BC Hydro will maintain a legacy of low-cost operations over the long term for our customers.

business overview



OUR VALUES

BC Hydro has five core values: Accountability, Integrity, Safety, Service and Teamwork. BC Hydro believes the five values below to be essential to our success.

- Accountability – we take responsibility for our actions
- Integrity – we are fair and honest, open and straightforward
- Safety – we integrate safety into everything we do
- Service – we seek solutions and build relationships
- Teamwork – we work together to achieve results

In conjunction with these core values, BC Hydro's Employee Code of Conduct provides clear guidelines to all directors and employees on the standards of conduct expected of them in all business relationships.

WHO WE ARE

BC Hydro is the largest electric utility in B.C., serving more than 1.7 million customers. Our primary business activities are the generation and distribution of electricity. We are responsible for reliably generating between 43,000 and 54,000 gigawatt hours (GWh) of electricity from our world-class, integrated hydroelectric and thermal generating system. Our generation system has a total installed capacity of 11,210 megawatts (MW). About 90 per cent of this generation is based on clean, renewable hydroelectricity, enabling BC Hydro to offer customers some of the lowest electricity rates in the world. Electricity is delivered to customers through an interconnected system of about 18,280 kilometres of transmission lines and 56,000 kilometres of distribution lines. The transmission assets are owned by BC Hydro; the management and operation of the transmission system is the responsibility of the British Columbia Transmission Corporation (BCTC).

BC Hydro has corporate offices in Vancouver (Dunsmuir) and Burnaby (Edmonds), and through regional offices has a presence in more than 50 communities throughout the province.

OUR INTERNAL BUSINESS

BC Hydro has four Lines of Business, a corporate function, two primary operating subsidiaries and two key suppliers. The groups are shown in the chart below.

BC Hydro's workforce – number of employees: 4,203*

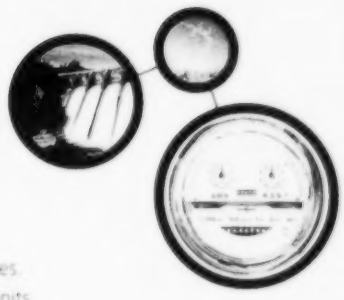
Subsidiaries

Key suppliers

Generation	Distribution	Engineering	Field Services	Corporate	Construction Business Unit	Powerex	Powertech Labs	BCTC	ABSU
684 employees	757 employees	591 employees	1,248 employees	335 employees	361 employees	132 employees	95 employees		

**total number of employees (including subsidiaries) is as at March 31, 2006. Full-time employees are counted as 1, part-time are counted as 0.5.*
Note 1: On May 31, 2006, BC Hydro began a reorganization of its business structure. As of the time of publication, the new structure had not been finalized. The new organizational structure will be included in our Fiscal 2007/08 – Fiscal 2009/10 Service Plan. Please consult the BC Hydro website for the most up-to-date information at http://www.bchydro.com/info/board_execs/board_execs12075.html

business overview



Generation manages and operates BC Hydro's generation assets to optimize their value for the benefit of the company, customers and the shareholder. Generation manages the investment strategies related to generation assets, including the expenditures that are required to meet social and environmental responsibilities. Generation assets include 41 dam sites (75 dams), 80 generating units at 31 hydroelectric facilities and nine units at three thermal generating plants.

Distribution acquires energy through demand-side and supply-side options, delivers it safely and reliably to customers, and provides extension, connection, and customer care services. Distribution manages 56,000 kilometres of overhead, underground and submarine distribution lines, 877,000 poles and 311,000 transformers and substation distribution assets.

Engineering provides project management, maintenance, emergency response, design, environmental, contracts, and construction management services to BC Hydro and BCTC.

Field Services provides services such as emergency response and restoration, maintenance and construction services to BC Hydro and BCTC in more than 50 communities in the province. Field Services also manages the provision of vehicle fleet services and material supply chain services.

Corporate functions include finance, regulatory, risk management, audit, information technology, legal, properties, corporate transmission, communications and public affairs, human resources and stakeholder engagement, and sustainability. Groups that conduct these functions provide services to the overall organization.

SUBSIDIARIES

BC Hydro has four principal wholly-owned operating subsidiaries: Powerex Corp. (Powerex), Powertech Labs Inc., BCH Services Asset Corp., and Columbia Hydro Constructors Ltd.

Powerex

Powerex, the energy marketing subsidiary of BC Hydro, is a leading buyer and seller of wholesale energy products and services in markets across North America. Powerex is responsible for creating economic value for BC Hydro and the province through the purchase and sale of physical electricity and natural gas in relation to BC Hydro's capabilities and domestic requirements, and through its energy trading activities, primarily in western energy markets.

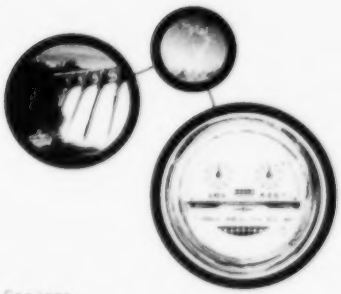
Powertech

Powertech Labs Inc. provides analysis, testing and certification services and analytic tools and products to the electric and natural gas industries, their customers and suppliers world wide. Powertech is a leader in high-pressure gas storage and fuelling technology, alternative energy and analytic software for the design and secure operation of integrated electric power systems.

Other Subsidiaries

BCH Services Asset Corporation (BCHSAC) and Columbia Hydro Constructors Ltd. (CHC) are two wholly-owned operating subsidiaries. BCHSAC holds all the assets, licences and other contractual rights and interests used in connection with the delivery of in-scope services under the Master Services Agreement between BC Hydro and Accenture Business Services for Utilities (ABSU). CHC provides construction services in support of certain BC Hydro capital programs. BC Hydro has created a number of other subsidiaries for the purpose of risk management in the development of projects and/or contracting with third parties. The Boards and management of these subsidiaries are made up of BC Hydro employees, who perform these duties without incremental remuneration.

business overview



KEY BUSINESS ALLIANCES

Accenture Business Services for Utilities

BC Hydro has now completed Contract Year 3 of the 10-year outsourcing agreement with Accenture Business Services for Utilities (ABSU). ABSU assumed responsibility for the performance of certain functions for BC Hydro on April 1, 2003. These functions include customer services, information technology, human resources, financial systems, purchasing, and building and office services. The agreement represents a commitment on BC Hydro's part to outsource services of $1.27 billion over 10 years in exchange for contractually committed savings of $250 million over the same period. BC Hydro continues to receive service at the levels received prior to the outsourcing agreement. In some cases service has exceeded past levels.

Financially, for the first three years (Fiscal 2004, Fiscal 2005 and Fiscal 2006) of the contract, BC Hydro has realized gross cumulative savings of $56.3 million (Forecast: $50.4 million). Over the same three-year period, BC Hydro has realized savings of $33.0 million net of growth in the business and service consumption.

British Columbia Transmission Corporation

The British Columbia Transmission Corporation (BCTC) is regulated by the British Columbia Utilities Commission (BCUC) and is responsible for planning, operating and managing BC Hydro's transmission system. BC Hydro retains ownership of the transmission system and is responsible for First Nations relationships and property rights with respect to the transmission system. BCTC was formed as part of the Provincial Government's Energy Plan, and provided for in the *Transmission Corporation Act*.

BCTC and BC Hydro work together in a number of different ways to ensure system reliability. The fundamental business relationship between BCTC and BC Hydro is defined by the Master Agreement and other Key Agreements which have been designated by the Provincial Cabinet. BCTC is responsible for obtaining the approval of the BCUC for:

- The Transmission System Capital Plan, which is then funded by BC Hydro
- An Open Access Transmission Tariff, including a component to fully recover the cost of ownership that is collected on behalf of, and remitted to, BC Hydro

INDEPENDENT POWER PRODUCERS

BC Hydro contracts with Independent Power Producers (IPPs) to ensure new additional resources for energy are secured to meet customers' needs as identified in the Integrated Electricity Plan. BC Hydro does this through competitive procurement processes, as required, to ensure that we have enough power when it is needed in the future. In Fiscal 2006, BC Hydro's 2006 Open Call for Power attracted 37 bidders who submitted 53 projects, which represented approximately 1800 MW of potential capacity (not including alternate versions of different projects).

These projects represent a broad range of alternatives, such as biomass, coal, run-of-river hydro, waste heat and wind. Potential bidders follow a series of steps in the competitive procurement process – from the expression of interest, to the offering of bids, to contract award and final delivery of electricity. There is a high level of interest in these calls, and this interest reflects a maturing and competitive IPP market in our province.

IPPs are subject to the same regulatory and public processes as any other projects and must obtain a range of approvals before they can build any generating facilities.

Going forward, BC Hydro will continue to conduct best-in-class competitive call processes and targeted actions to obtain a mix of projects and which will contribute towards meeting the 50 percent clean electricity target. British Columbians will continue to be encouraged to take part in the debate through public processes to ensure that we achieve a balanced, low-cost resource portfolio to meet our province's growing electricity requirements.

business overview

LEGISLATION AND PUBLIC POLICY

Operating Legislation

Two key provincial legislative statutes enable BC Hydro's operations. Our mandate is provided for under the *Hydro and Power Authority Act*. This Act created BC Hydro and establishes its general powers and governance. The other piece of legislation is the *Utilities Commission Act*. This Act creates the British Columbia Utilities Commission (BCUC) and establishes the framework for regulation of public utilities. The BCUC is an independent regulatory agency of the provincial government, operating under and administering the Utilities Commission Act. The BCUC's primary responsibility relative to our industry, is the regulation of the energy utilities under its jurisdiction to ensure that the rates charged for energy are fair, just and reasonable, and that utility operations provide safe, adequate and secure service to customers. BC Hydro's assets also come under the terms of the BC Hydro Public Power Legacy and Heritage Contract Act. The Act ensures public ownership of BC Hydro's Heritage Resources, which includes BC Hydro's transmission and distribution systems, and all of BC Hydro's existing generation and storage assets. The Act also includes any future increases to the capacity and energy capability of these facilities, including potential future units 5 and 6 at Mica and Revelstoke respectively.

Provincial Public Policy – Energy Plan

BC Hydro is a commercial provincial Crown corporation and has a role in implementing provincial public policy. The provincial government's Energy Plan was released in November 2002, and was implemented over the following four years. It included 21 direct policy action items for BC Hydro to accomplish. Nineteen were completed by the end of Fiscal 2005, and in Fiscal 2006, the final two elements – a new rate structure and choice of electricity supplier by large customers – were completed. The Energy Plan has four cornerstones: low electricity rates and public ownership of BC Hydro; secure, reliable supply; more private sector opportunities; and environmental responsibility and no nuclear power sources.

report on performance

Overview

BC Hydro's Annual Report is designed to meet the provincial government's *Budget Transparency and Accountability Act* (BTAA) requirement to report on the performance targets set out in our annual Service Plan. We also report on activities that align with the Global Reporting Initiative 2002 Guidelines for triple-bottom-line reporting. As outlined in the Performance at a Glance chart, BC Hydro has committed to meet or exceed the goals in the Service Plan, and has set performance targets for each measure. This Report on Performance tracks what we've promised, what we've accomplished and the future goals we hope to achieve. Each Line of Business and subsidiary is responsible for its own performance within its business area.

report on performance

LONG-TERM GOALS

BC Hydro has adopted 15 long-term goals as part of its overall business strategy. This Report on Performance is based on the September 2005 goals and targets. Definitions of the performance measures and disclosures of actual performance relative to BC Hydro's targets can be found throughout the Report on Performance section. As part of our strategy going forward, BC Hydro has also established shorter-term priorities, measures of which are also included below.

Short-Term Priorities	Description
Reliability for Customers and of Supply	To invest in, operate and maintain the distribution system, and specify substation and transmission performance requirements in a way that best meets the reliability needs and expectations of our customers. To have enough electricity (energy and capacity) to meet customers' needs, including through conservation programs and projects.
Customer Satisfaction	To lead other companies in offering extraordinary value and service to our customers, including remote communities.
People	To be the top employer for generations and to use exceptional teamwork to engage all employees.
Safety	To provide the safest work environment compared with the best performers in any industry.
Financial Targets	To maintain the existing position of having costs among the lowest in North America and to deliver 100 per cent of forecast net income on an annual basis.

Although we have chosen to focus on these five goals for the time being, it doesn't mean that the remainder of our 15 goals are not important. We can and will continue to work on accomplishing projects, setting targets and achieving measures that relate to each of the goals as part of our business.

BC Hydro uses a series of measures to guide business performance and progress. Some of these measures are tracked on a quarterly basis; others are tracked semi-annually and annually. BC Hydro has developed and is developing leading measures where practical to determine if progress on the goals is on track and to identify where adjustments need to be made. Measures are results-based where possible and will help the company, shareholder, and public to more accurately evaluate performance. In conjunction with the Auditor General's "Building Better Reports" initiative, BC Hydro's Internal Audit group developed assurance standards for performance measures. On a scheduled basis, internal audits are conducted on performance measures using these standards. All internal audits are reviewed by BC Hydro's Audit and Risk Management Committee of the Board. Additionally, BC Hydro participates in a number of benchmarking studies to determine areas where improvement may be required. BC Hydro has re-evaluated its past performance measures and targets in light of its purpose and goals, to ensure that these are the right indicators for each long-term goal, and more directly linked.

Performance at a Glance — BC Hydro's Long-Term Goals

BC Hydro has 15 long-term goals as part of its overall business strategy. From these long-term goals, BC Hydro develops performance measures and targets, records these in its Service Plan to the provincial government and reports on them each year in its annual report. The performance targets for Fiscal 2006 referenced in this report were those set out in our September 2005 Service Plan. Targets for Fiscal 2007 and beyond can be referenced in our Fiscal 2007 Service Plan which was released in February 2006. The measures below have been presented to align BC Hydro's five short-term priorities referenced earlier in the report.

Short-Term Priorities	Related Long-Term Goals	Service Plan Measures							
		Measure	**03/04 Actual**	**04/05 Actual**	**05/06 Target**	**05/06 Actual**	**06 Target Variance**	**06/07 Target**	**07/08 Target**	**08/09 Target**
Safety	Safety	All Injury Frequency	3.0	2.6	2.3	2.5	▼	2.1	1.9	1.5
Reliability (Supply and Customer)	Reliability (Customer)	Reliability ASAI (%)								
		(Actual)	99.949	99.955	99.970	99.957	▼	99.970	99.970	99.970
		(Excluding major events)	99.960	99.966	99.970	99.969	●	99.970	99.970	99.970
		CAIDI (hours)								
		(Actual)	2.78	2.69	2.15	2.10	●	2.15	2.15	2.15
		(Excluding major events)	2.41	2.27	2.15	1.82	▲	2.15	2.15	2.15
	Reliability (Supply) (1)	Sustaining Capital Ratio	1.2	1.1	1-2	1.1	▼	N/A	N/A	N/A
Financial	Financial Targets (2)	Net Income ($) (Millions) (1)	111	402	376	266	▲	395	415	247
Customers	Customer Satisfaction (3)	Customer Satisfaction %								
		7 to 10	88	90	84	85	▲			
		8 to 10			75	71		76	78	81
People	People (Teamwork and Workplace) (4)	Approved Strategic Workforce Planning Positions Filled	68	71	70	87		N/A	N/A	N/A

Notes

1. This measure will no longer be continued in Fiscal 2007 to measure reliability. It will be replaced by the Winter Availability Factor.
2. Net income forecast based on May 2006 Revenue Requirements filing.
3. The Customer Satisfaction measure as of Fiscal 2007 will track only highly satisfied customers at a score of eight, nine or 10 out of 10 in customer surveys. Historically, it was based on a seven or higher rating out of 10.
4. The Approved Strategic Workforce Planning Measure will not be used to track the Workforce measurement in Fiscal 2007. The replacement measure is to be determined.

Other Long-Term Goals

Long-Term Goal	Measure	03/04 Actual	04/05 Actual	05/06 Target	05/06 Actual	06 Target Variance	06/07 Target	07/08 Target	08/09 Target
No Net Incremental Environmental Impact	Environmental Regulatory Compliance (Incidents)	18	14	17	12	▲	16	15	15
	New Electricity From Clean Energy - Ten-Year Target %	52	36	50	21	▼	19	25	34
Electricity Conservation and Efficiency	Demand-Side Management (gigawatt hours)	784	1,388	1,886	1,957	▲	2,500	2,900	3,400
First Nations, Remote Communities, Suppliers, Stakeholders, Western Opportunities, Innovation and Technology	Significant progress was made on implementation and planning for these 20-year goals during Fiscal 2006; metrics will be developed as appropriate.								

report on performance

Customer

CUSTOMERS

BC Hydro operations serve a diverse domestic customer base comprising residential, commercial and industrial customers. About 88 per cent of customers are residential, accounting for approximately 38 per cent of our domestic revenues. About 11 per cent of customers are commercial or light industrial, accounting for 36 per cent of domestic revenues. Large industrial customers represent less than one per cent of customers, but account for about 21 per cent of domestic revenue.

British Columbians have been well served by our low-cost hydroelectric system. We are ensuring that our heritage assets are well maintained, and are also investigating alternative energy options to meet our customers' energy requirements. We strive to keep customer feedback and surveys in mind as we plan for future energy needs.

The following information reflects the challenges, opportunities and key projects we've accomplished during Fiscal 2006.

report on performance

CUSTOMER

RELIABILITY FOR OUR CUSTOMERS

One of the ways we will continue to meet customer needs for reliability is by incorporating the future needs of customers into our planning and investment strategies, and by embedding these strategies into the way we do our business. Our results have shown improvement since Fiscal 2004 as a result of increased maintenance spending on infrastructure, focus on customer-based reliability and streamlining the trouble call process to reduce our customers' outage time.

Ensuring that customer reliability is part of our business strategy helps us by determining differing reliability needs for customer groups, and aligning our asset management processes to focus on those needs. The overall goal of the customer-reliability program is to invest in, operate, and maintain the distribution system, and specify substation and transmission performance requirements in a way that best meets the reliability needs and expectations of our customers. With this program in place, BC Hydro can report on the performance of individual system feeders (circuits that carry a large block of power to smaller circuits) and any subsequent gaps in performance. This means that we can better track information from these feeder circuits and determine patterns of electricity consumption by customer group.

Benchmarking our Reliability Performance

BC Hydro participates in a number of benchmarking studies with other utilities to determine the relative strengths and weaknesses of our strategies and program delivery. These studies include PA Consulting's Transmission & Distribution Best Practices survey, the Electric Utility Costing Group Transmission & Distribution Performance Committee, and a composite of participating utilities in the Canadian Electricity Association. These studies have shown that we are a low-cost, customer-focused service provider with an efficient energy conservation program that uses many of the industry's best practices.

Specifically, the wires in BC Hydro's distribution business have been ranked consistently in the top quartile in terms of cost performance. Continued efforts and investments are required to improve reliability performance while maintaining cost performance in the top quartile range.

Reliability Measures Improvements

BC Hydro uses standard industry measures of reliability to measure the system's overall performance for power availability and duration. In order to measure the customer's experience with outages more effectively, we have introduced two new corporate reliability targets this year that will provide us with more focus on the customer: Customers Experiencing Multiple Interruptions (CEMI) and percentage of Customers Experiencing Longest Interruption Duration (CELID).

To improve future customer service, in Fiscal 2006 BC Hydro developed a new strategy and guidelines for independent power producers to inform them about BC Hydro's standards. We can also track the data from this program to develop our own minimum standards for customer reliability. We have developed an asset management framework that will focus on customer reliability while managing the investment needs of our company. The framework will also monitor the condition of our wires, poles and cables.

Reliability and Storms

Major windstorms happen frequently during the winter season in B.C. and present operating challenges to BC Hydro. However, they are a part of our business, and we have developed a safe and timely approach to responding to them. Our goal is to restore power to our customers as soon as possible, in a safe and reliable manner, while ensuring that they are informed with clear, updated information.

Overall, BC Hydro experienced an average year for storms in Fiscal 2006, except for on Vancouver Island, where the number of windstorms affecting customers was much higher than past years. Ten significant windstorms this year impacted Vancouver Island and parts of the Lower Mainland, resulting in 1.85 million customer hours lost, or 29 per cent of all customer hours lost province wide. The largest storm occurred on February 4, 2006, affecting over 100,000 customers on Vancouver Island, in the Lower Mainland and Fraser Valley. The storm lasted for about 13 hours, and BC Hydro experienced 210,873 customer interruptions and 652,075 customer hours lost. The average duration of outages was 3.09 hours. Crews were mobilized and worked diligently to restore power to the affected areas.

Improving Reliability and Protecting Wildlife

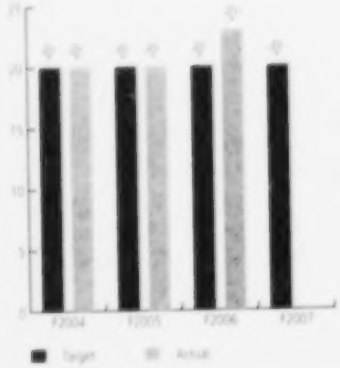
In March 2006 BC Hydro began to replace the overhead line with underground service in Ucluelet to increase customer reliability and remove eagle hazards. As many as 50 to 100 eagles congregated near the overhead line that served a seafood plant and a First Nations community. BC Hydro often modifies line markings to increase visibility, or alters the location and type of cables to reduce the possibility of bird electrocution. Service to customers and eagle mortality will both improve significantly with the completion of this project.

report on performance

CUSTOMER

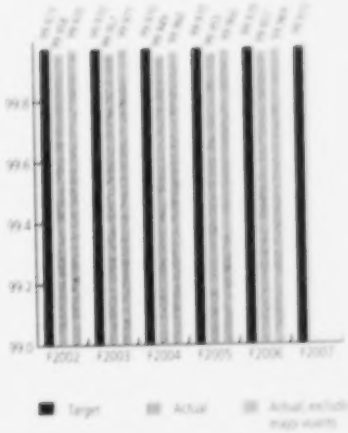
Asset Health Risk Index

Percentage



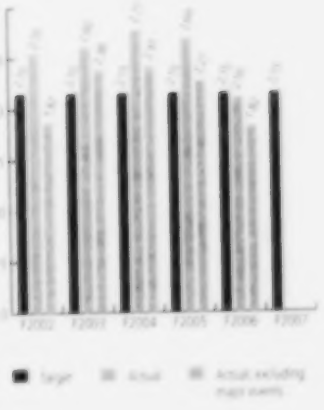
Reliability: ASAI

Percentage



Reliability: CAIDI

Hours



Definition: *Asset Health Risk Index is defined as the percentage of Distribution wire assets rated in fair or poor health through an annual assessment of its asset health. Assets in good health are expected to perform its intended function for the next 10 years. Assets in fair health are those that will have an adverse impact on BC Hydro's operations within the next 10 years unless an appropriate management program is in place. Assets in poor health are those that require immediate attention and for which an active program is in place to mitigate the risk.*

Variance Explanation: *Performance result compares unfavourably against target due to declining health in vegetation and underground system offsetting improvement in overhead wires and related equipment. In particular, the mountain pine beetle infestation which was not an issue in prior years became an emerging problem in Fiscal 2006 and its impacts have been factored into the vegetation health assessment, contributing about two per cent to the overall index. As well, a more rigorous assessment of the underground system has indicated a higher proportion of assets requiring near term attention than previously estimated. Going forward, funding will be prioritized as appropriate to address the underground asset health to ensure system sustainability over the long term.*

Benchmark Comparison:
No benchmark data is available.

Definition: *Reliability is defined as a combination of Average System Availability Index (ASAI) and Customer Average Interruption Duration Index (CAIDI). ASAI refers to the percentage of time power is available. CAIDI describes the average number of hours per interruption. CAIDI is the ratio of total customer hours lost divided by total customer interruptions. These indices are electricity utility standards.*

Note: To better reflect reliability from a customer's perspective, BC Hydro will track and report on two new components in Fiscal 2007: Customers Experiencing Long Interruption Durations (CELID) and Customers Experiencing Multiple Interruptions (CEMI). (For more information, see BC Hydro's 2006/07 - 2008/09 Service Plan.)

Variance Explanation: *ASAI was lower than target as a series of 10 major windstorms swept across Vancouver Island and the Lower Mainland resulting in 1.85 million customer hours lost. The most severe windstorm on February 4 interrupted power supply to more than 100,000 customers for 650,000 lost hours. However, CAIDI was better than target due to lower lost hours per interrupted customer. As well, the normalized (excluding major events) ASAI at 99.969 per cent met the annual target. ASAI and CAIDI targets are based on historical average under normal operating conditions (i.e. excluding major events). Actual and normalized ASAI and CAIDI have shown steady improvement since Fiscal 2004 as a result of increased maintenance spending on aging infrastructure, focus on customer-based reliability and streamlining the trouble call process to reduce outage restoration time.*

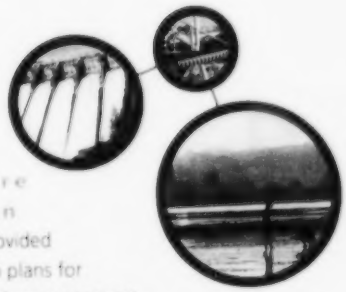
Benchmark Comparison: *BC Hydro is in the third quartile of Canadian and U.S. utilities for ASAI and CAIDI, due to the impact of weather, storms, and major events such as forest fires. With BC Hydro's large service territory there is a significant exposure to trees and diverse terrain. Our customers are generally satisfied with our performance.*

ENSURING A RELIABLE SUPPLY

Reliability of supply means that BC Hydro has enough electricity (energy and capacity) to meet customers' needs. BC Hydro relies on a variety of tools and approaches to maintain a reliable supply in order to acquire, manage, forecast and plan for our electricity needs. We are required to meet domestic customer demand, and review demand outlook regularly to ensure that we can meet this responsibility. Over the past year, BC Hydro has completed a number of activities to support this priority, including preparing and filing an Integrated Electricity Plan (IEP), developing a Resource Expenditure Acquisition Plan (REAP), and launching an Open Call for energy targeting 2,500 GWh.

report on performance

CUSTOMER



The Integrated Electricity Plan

Clean, reliable, low-cost electricity has been key to British Columbia's economic prosperity and our quality of life for generations. But, as our province continues to grow, the gap between electricity supply and demand is expected to increase.

BC Hydro's 2006 Integrated Electricity Plan (IEP) looks at the challenges we face in meeting the electricity demands of British Columbians in the future, along with the resource options available to help fill the emerging supply-demand gap. In each of the last five years British Columbia has been a net importer of electricity. Based on current demand forecasts, the province is expected to need significantly more electricity over the next twenty years.

With demand on the rise, we need to be planning now to ensure that we preserve the natural competitive advantage that reliable electricity has provided to British Columbians for generations.

The IEP examines the three fundamental ways that BC Hydro will work with British Columbians to fill the growing electricity gap:

- Conserving more – through increased Power Smart activities
- Buying more – from independent power producers (IPPs)
- Building more – by investing in upgrades to BC Hydro's existing facilities and/or investigating new options for adding generating capability

The mix of resource options available in British Columbia includes conservation (Power Smart), natural gas, coal, run-of-river small hydro, wind, geothermal, biomass, customer generation and large-scale hydro projects.

The decision about the resource options we choose to meet our future needs is an important one for all British Columbians. By reaching out to customers, communities, stakeholders and First Nations, we can gain their insights and ideas on how to best deal with the choices and challenges that must be addressed to meet our long-term electricity needs.

On March 29, 2006, BC Hydro filed an up-to-date IEP and associated action plans to the British Columbia Utilities Commission (BCUC). We are also committed to continuously improve the planning methodologies and processes to advance low-cost reliable energy, capacity and requirements. As part of the IEP stakeholder engagement process, BC Hydro solicited input on a variety of options for continuing to provide reliable supply to its customers. Four resource strategies were presented to stakeholders across the province to solicit their input. This input will be taken into consideration as BC Hydro initiates its Long-Term Acquisition Plan.

Resource Expenditure and Acquisition Plan

This application to the BCUC provided details on BC Hydro's short-term plans for capital expenditures, demand-side management expenditures, forecast expenditures for acquiring energy arising from existing electricity purchase agreements, and a proposed Fiscal 2006 open call to independent power producers.

The report was initially filed on March 7, 2005. Additional call information was filed with the BCUC in July 2005 to address the nature and need for the proposed Fiscal 2006 Open Call for Power. A negotiated settlement was reached on this application with customers and the IPPs, and approved by the BCUC on October 12, 2005.

This allowed the Fiscal 2006 Open Call for Power to proceed immediately. The Call set a target of 2,500 GWh per year of firm energy from large projects and a minimum target of 200 GWh per year for small projects (under 10 MW).

Open Call For Power

An Open Call for Power is a request for independent power producers to submit bids to supply BC Hydro with power to ensure our future reliability of supply.

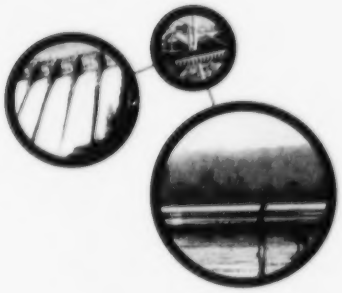
The Call was launched in December 2005, following the success of the negotiated settlement for this application in October 2005. Final tenders were submitted on April 7, 2006. Over the next several months, BC Hydro will be evaluating the tenders against the criteria provided in the Call documents. Contract awards are expected to be announced in late summer 2006. BC Hydro will continue to prepare for further calls in 2007 and 2008.

Duke Point Power Project

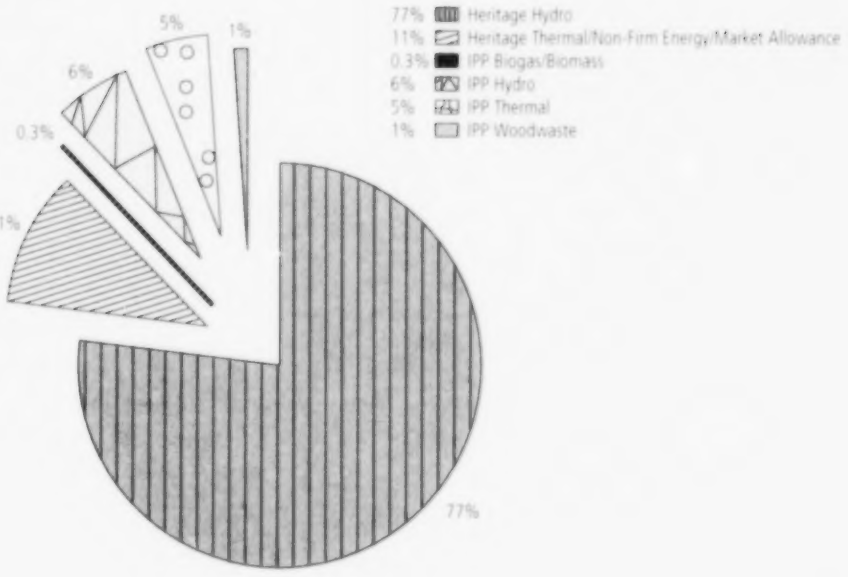
On June 17, 2005, BC Hydro announced the termination of the energy purchase agreement with Duke Point Power Limited Partnership, which had been selected to provide a new source of electricity supply on Vancouver Island from a gas-fired combined cycle plant to be located near Nanaimo. BC Hydro is currently assessing various alternative sources of electricity supply for Vancouver Island until BCTC builds a new 230 kv transmission line from Tsawwassen to Vancouver Island. The new cable is scheudled to be in place by October 2008. BCTC is awaiting regulatory approval for this project, expected in summer 2006.

report on performance

CUSTOMER



Current Energy Portfolio in Service



CUSTOMER SATISFACTION

One of BC Hydro's priority long-term goals is to lead other companies in offering extraordinary value and service to our customers. This goal challenges BC Hydro to lead not just other utilities, but other companies recognized for leadership in customer service.

BC Hydro has three types of customers – residential, commercial and industrial. Each customer group is important, and we measure our progress as a company through a customer satisfaction performance measure defined as the "percentage of highly satisfied customers." Using a biannual survey of all BC Hydro customers (equally weighting the responses of residential, key accounts and other businesses), "highly satisfied customers" include those who rate BC Hydro greater than eight out of 10 in "overall satisfaction." This year's survey, conducted in March 2006, reported that 71 per cent of customers were highly satisfied with BC Hydro. In the coming year, BC Hydro's goal is to continue to enhance the value and service we provide, resulting in 76 per cent of our customers rating the company at this level or above.

Customer Care provides responses and solutions to inquiries such as billing problems, power quality issues, and metering challenges. We have developed a more focused effort to respond to key account customer enquiries in a timely and thorough manner. As of March 2006, customer satisfaction with Key Account Management was at an all time high with 92 per cent of Key Account customers being highly satisfied with their Key Account Manager. The initiative to reduce the time to resolve customer issues or provide answers to enquiries related to aspects of service including billing, reliability, power quality, metering and Power Smart played an important role in driving this high satisfaction result. By focusing on specific process improvements, BC Hydro was successful at reducing the average resolution time of the majority of issues by 42 per cent. Some examples of these improvements are: implementing standard operating procedures for Customer Care staff, focusing on results tracking and analysis, and ensuring that key resources were actively focused on reducing resolution time.

report on performance

CUSTOMER

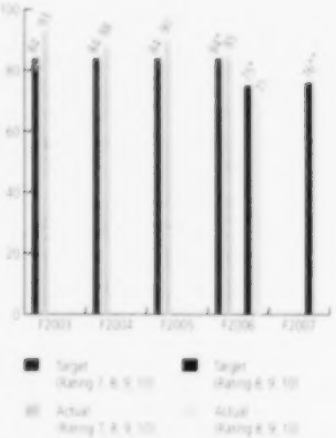
Customer satisfaction is also about building relationships. For example, this year one of our customers, Great West Life Assurance Company Limited in Vancouver, needed more green space. They wanted to know if they could put some vegetation around an existing transmission tower. BC Hydro assisted the customer by finding out what would be appropriate and safe vegetation for the area, helping them to achieve their goal.

As well, this year BC Hydro received a letter from the Tolko sawmill in Merritt praising the excellent customer service they received from one of our line crews after a motor vehicle accident on their property caused a power outage. The prompt response and the interaction between BC Hydro staff and their employees went beyond Tolko's expectations.

Improving outage communication is one initiative that BC Hydro is pursuing, as customer feedback and research indicates that this is an area that they highly value and where BC Hydro has an opportunity for improvement. Customers value comprehensive and timely information around planned and unplanned service outages. This includes the estimated time for service restoration as it allows customers to make appropriate personal and business decisions during an outage. Outage communication will be a key priority for Fiscal 2007.

Customer Satisfaction Rating

Percentage



Definition: *Customer Satisfaction Rating Fiscal 2003 to Fiscal 2005: Customer Satisfaction Rating was a composite indicator. Thirty per cent of the measure came from a survey using all customers as the population from which to draw a random sample. The other 70 per cent came from transactional surveys with customers who had a recent service interaction with BC Hydro.*

**Customer Satisfaction Fiscal 2006 and onwards: Customer Satisfaction (CSAT) rating is based 100 per cent on a random survey drawn from all customer segments. The composite score is based on applying an equal weighting of one-third across each customer segment (residential, key accounts, other business).*

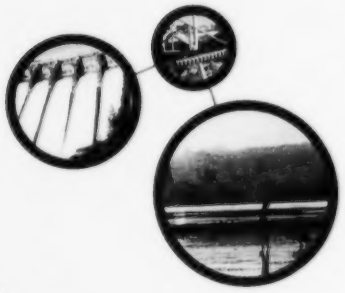
*** Note: the Customer Satisfaction Rating has set its target to achieve a higher standard, tracking only highly satisfied (scores of eight to 10) versus satisfied and highly satisfied (scores of seven to 10). Targets have been set to achieve levels of Customer Satisfaction that are consistent with moving towards the goal of leading other companies in offering extraordinary value and service. Based on independent surveys of residential customers of electric utilities across Canada, leaders have had average satisfaction scores ranging between 80-84%. These results were used as proxies for benchmarking. The target is the percent of customers which score BC Hydro 8, 9, or 10 (highly satisfied on a 10-point scale) in customer surveys. This scoring level is a more accurate reflectionbof when a customer has a positive impression of BC Hydro and is truly satisfied. The Fiscal 2007 target has been revised to reflect this higher level of performance, from 84 per cent noted in the 2005/06 - 2007/08 Service Plan to 76 per cent in the 2006/07 - 2008/09 Service Plan. As Fiscal 2006 is a transitional year from reporting satisfied and highly satisfied to reporting only highly satisfied in Fiscal 2007, BC Hydro has included the target and scores for the higher standard for Fiscal 2006.*

Variance Explanation: *BC Hydro met and exceeded the Fiscal 2006 target of having 84 per cent (actual 85 per cent) of customers being satisfied or highly satisfied and rating BC Hydro from seven to 10. However, BC Hydro would not have met the higher standard of having 75 per cent of customers being highly satisfied and rating us from eight to 10. As this becomes the new standard for Fiscal 2007, significant strategies, such as improving outage communication, are being implemented to achieve the higher standard of customer satisfaction.*

Benchmark Comparison: *BC Hydro achieved 2nd quartile in the Ipsos - Reid National Omnibus survey.*

report on performance

CUSTOMER



SUPPLYING ELECTRICITY TO REMOTE COMMUNITIES

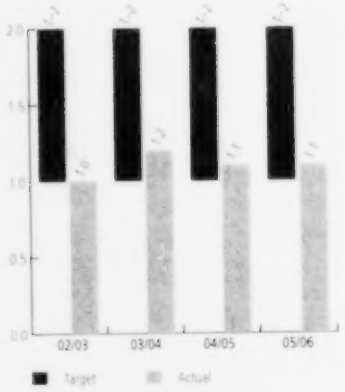
BC Hydro wants to provide remote communities in B.C. with the opportunity to receive reliable and sustainable electrical service. In terms of key actions in Fiscal 2006, BC Hydro assumed responsibility for electrical operation and maintenance services to Tsay Keh Dene and Kwadacha. The Tsay Keh Dene community is located near Fort Grahame in northern B.C., just south of where the Finlay River flows into the north end of Williston Lake. The Kwadacha community is located at Fort Ware, approximately 570 kilometres north of Prince George.

This year, BC Hydro communicated with approximately 50 to 60 First Nations and six civic communities which have 10 or more permanent residences about the goals of the program and received completed questionnaires from 17 communities. About 15 First Nations communities participated in workshops to give feedback on our electrification eligibility criteria and to help us build prioritization criteria. It was agreed that the communities who could demonstrate the greatest hardship and a good level of commitment would take priority.

We also designed a template for a Remote Community Energy Plan to standardize the process and to ensure that once the plan was complete, the community would not need any further study work but could go directly to implementation. We worked with three First Nations communities to complete a Remote Community Energy Plan and agreed on a business model that would suit BC Hydro's needs without losing the community's ability to obtain Indian and Northern Affairs Canada (INAC) funding for generation. BC Hydro will now build operating models, finalize service agreements and obtain rights-of-way for access. These will then be presented to the BCUC to obtain permission to add additional communities to our customer base via a Certificate of Public Convenience and Necessity. During Fiscal 2006 BC Hydro electrified two remote communities.

Sustaining Capital Ratio

Percentage



Definition: *Sustaining Capital Ratio is the sustaining capital expenditures as a percentage of replacement value of capital assets. It is a predictive measure of service performance. Its purpose is to indicate BC Hydro's future ability to maintain high system reliability by ensuring business-sustaining investment to maintain the health of its assets.*

Variance Explanation: *The Sustaining Capital Ratio is in the lower end of the target range. While capital spending was greater in Fiscal 2005, the replacement cost has also increased.*

Benchmark Comparison: *No benchmark data available.*

Note: Beginning in Fiscal 2007, Sustaining Capital Ratio will no longer be a key measure to deliver on our strategy. Success in allocating sustaining capital will be reflected in reliability (customer and generation) measures.

report on performance

People

WORKPLACE

In Fiscal 2006 BC Hydro continued to deliver on its employee-related long-term goals.

Our key priorities included initiatives to:

- Encourage employee commitment by setting clear expectations and providing meaningful feedback
- Improve the delivery of benefits, pensions and Human Resources services
- Increase two-way employee communication in alignment with our purpose

In addition, we encouraged our employees to model our five company values – accountability, integrity, safety, service and teamwork – in their work and business partnerships.

Overall, BC Hydro seeks to build both a safe and a skilled workforce that mirrors the diversity of the province, and to create a culture that is values-driven, performance-based and service-oriented. In doing this, employees will clearly understand how their work contributes to BC Hydro's business success.

report on performance

PEOPLE

Our Workforce

In September 2005 BC Hydro developed a strategy to focus on the three 'R's : recruitment, retention and the road to retirement. Like other employers, BC Hydro has an aging workforce, and we have developed modeling tools to predict retirement uptake. This year 564 employees (15 per cent of our total active workforce) were eligible for retirement. Consistent with our history, 147 employees (22.5 per cent of those who are eligible or 3.9 per cent of our total active workforce) actually retired from BC Hydro.

In Fiscal 2006, in the area of recruitment, we identified areas we predict will have critical skills shortages. BC Hydro aligned its hiring and early career development trainee programs to enhance organizational capability in meeting predicted skill gaps. There are currently 119 apprentices and 68 trainees in BC Hydro's workforce. The trainee programs were implemented in response to the Strategic Workforce Planning initiative, and are not expected to meet all the vacancies in the critical skill occupations. Other strategies and tools have been implemented concurrently to meet BC Hydro's resource needs. Enhanced employment branding and outreach, targeted market hiring, and the electronic-based external candidate management system will contribute to identifying and tracking the best qualified talent available.

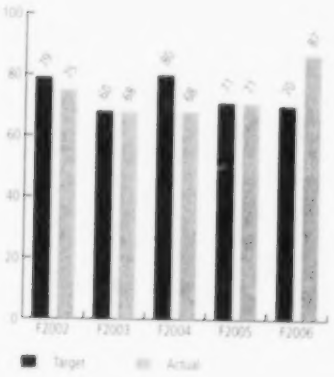
Ultimately, these initiatives and how we work together as a team will help move BC Hydro toward being a top employer for generations.

Employee Satisfaction

Each year, BC Hydro asks for employees' opinions on their workplace, their job, management and the company. The Employee Survey results for Fiscal 2006 trended upwards from Fiscal 2005. The employee commitment index, a combination of a series of eight questions, has BC Hydro scoring 3.69 overall, a statistically significant increase over the 2005 score of 3.61. This employee committment score is the same as the WorkCanada 2004-2005 overall score. This was the second year that the entire employee population was surveyed.

Approved Strategic Workforce Planning Positions Filled

Number



Definition: *Approved Strategic Workforce Planning Positions Filled is the number of positions filled under BC Hydro's Strategic Workforce Planning (SWFP) initiative. SWFP is a systemic, fully integrated process that involves proactively planning to avoid future skill shortages or surpluses and ensures the supply of talent needed to support business strategy.*

Variance Explanation: *SWfP Positions Filled is above target due to change in the predicted number of SWfP positions required since the release of the Service Plan. A recent increase in retirement uptake and conservative SWfP hiring practices have resulted in a shortfall of skilled labour to fill vacancies in critical business areas. To mitigate this impact, the planned SWfP hires were increased to a total of 84 from the target of 70 in the Service Plan. Three SWfP hires on top of the additional 14 were made, which is positive progress towards mitigating BC Hydro's current increased retirement risk.*

Benchmark Comparison: *No benchmark data available.*

NOTE: Effective Fiscal 2007, this metric will be replaced with BC Hydro's Employee Engagement Score, which is considered a better measure of our ability to deliver on strategy. (For additional information, see BC Hydro's 2006/07 to 2008/09 Service Plan.)

report on performance

PEOPLE

Attrition

	F2002	F2003	F2004	F2005	F2006
Overall rate of attrition	4.0%	5.4%	5.5%	6.5%	6.5%
Overall attrition (number of employees - based on Full-Time Regular employees)	208	290	195	233	241
Percentage retired	2.0%	3.0%	4.0%	4.1%	4.0%
Number retired	106	162	143	149	147
Percentage resigned voluntarily	1.4%	1.2%	0.7%	1.5%	1.6%
Number resigned voluntarily	71	63	26	53	60
Percentage terminated for other reasons, were dismissed, or died	0.6%	1.2%	0.7%	0.9%	0.9%
Number terminated for other reasons, were dismissed, or died	31	65	26	31	34
New hires (numbers)	289	120	132	149	272
Number of base of employees eligible to retire	583	679	570	626	652
Retirement Uptake (number)	106	162	143	149	147
Retirement Uptake rate (percentage)	18.2%	23.9%	25.1%	24.0%	22.5%

All performance measures are within the expected range. The only significant difference from the previous year is the increase in the number of new hires, which reflects BC Hydro's recently enhanced recruitment efforts.

Employee Commitment Index

Score Out of Five

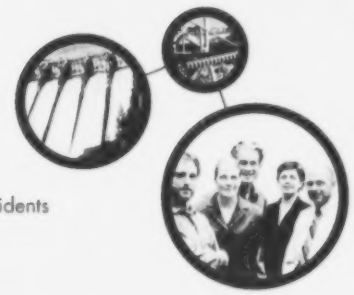
	2002(C.Y)	2002/2003	2003/2004	2004/2005	2005/2006
BC Hydro	no data	3.62	3.73	3.61	3.69
WorkCanada Benchmark	3.88	3.88	3.88	3.69	3.69

The Employee Commitment Index is scored from composite answers to eight questions posed in the annual Employee Survey which provide a reliable measure of employees' commitment to their work and to the company. The survey, for the second time, took a full census of the employee population and was web-enabled. The result was a 74 per cent response rate (up from 70 per cent last year).

BC Hydro's Productive Engagement score is 3.33 (WorkCanada Benchmark is 3.40). This is the first year BC Hydro's Employee Survey has measured Productive Engagement, but this will be our measure going forward. ECI simply shows employees' intention to stay (which we already know is strong at BC Hydro), whereas productive engagement shows how employees are engaged (have the motivation, resources, alignment and capability) to do their work well.

report on performance

PEOPLE



SAFETY

BC Hydro must provide a safe workplace for its employees. We support WorkSafe BC's safety statement that "a safe worker is one who is well trained and well supervised." To deliver on safety, our systems must be well designed, well built and well maintained; our work procedures must be well known and executed; we must effectively hire and train our people; and we must observe and effectively respond whenever circumstances or events arise.

In Fiscal 2006 we saw improvement in our All Injury Frequency (AIF) safety performance; however, our injury severity performance weakened. This improvement in AIF retains our employees as top-quartile performers in All Injury Frequency as compared with those in peer utilities of the Canadian Electricity Association (CEA).

Despite this general improvement in safety performance, two fatal electrical contact incidents occurred during the year. One incident occurred outside Courtenay in September 2005, and the other near Bamfield in February 2006. These two incidents, and other serious electrical contacts that have occurred in the past five years, have led to a broad review of safety practices and procedures across all BC Hydro operations. This review culminated in a workshop held in May 2005. The workshop included a review of all recent incidents, an external assessment of the electrical contact incident findings, and an evaluation of communication practices. Three priority areas were identified and several initiatives have been introduced to address:

- Leadership and supervision
- Resourcing and crew size
- Training and development

Work will continue on these three priority areas during the year ahead.

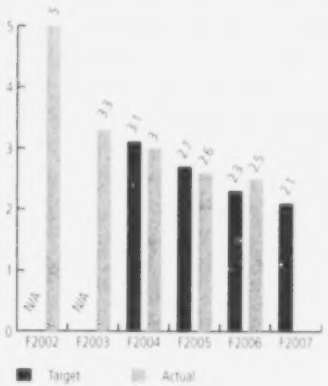
Employees participated in two workshops to improve their safety skills during Fiscal 2006: 900 in a communication workshop and 440 in a Safety Accountabilities session. Work on clarifying the Safety Practice Regulation for BC Hydro is continuing, and we hope to implement it by the end of June 2006.

This year, we increased both our level of supervision, and management participation in the field. Additional sustained focus is going into management leadership and supervision training as well as worker competency training and qualification. Through careful analysis of, and focus on, primary hazards, we intend to continue our reduction in overall incident numbers and, more importantly, eliminate the occurrence of serious accidents. If employees feel unsafe they know they have the authority and responsibility to stop working and address the safety concern. Having the safest working environment compared with the best performers of any industry, and having none of our employees experience a serious safety injury, will require innovation, creativity, teamwork and the commitment of every employee.

Near-miss reporting is reporting an incident where the potential for injury is seen, documented and remedied before injury actually results. This type of reporting has been added as a safety performance measure, creating a growing database of information from which to track trends.

All Injury Frequency

Number of Employee Injury Incidents per 200,000 hours worked



Definition: *All Injury Frequency is the total number of employee injury incidents (Medical Aids and Disabling Injuries) occurring in the 12 months prior to the report date relative to the amount of worked hours in the same period. For this measurement Medical Aid injuries are defined as those where a medical practitioner has rendered services beyond the level defined as "first aid" in relation to the injury incident, and the employee was not absent from work beyond time lost on the day of the injury. Disabling injuries are defined as those that involve the employee being absent from work beyond the day of injury.*

Variance Explanation: *There has been a substantial reduction in the period and, although we did not achieve the Fiscal 2006 target of 2.3, the reduction trend remains strong. Unfortunately we have had a number of very serious incidents including two that proved fatal. Efforts to continue that reduction will be maintained and significant corporate energy is going into activity to prevent the serious incidents from occuring in the future.*

Benchmark Comparison: *BC Hydro compares its performance annually to the Canadian Electricity Association (CEA) composite. In this comparison we have (over the past number of years) been consistently out performing the composite and have been positioned within the top quartile. There has been significant improvement across the industy overall in the past year. As a result, we are no longer top-quartile, but do remain at 2.4, substantially stronger than the CEA composite which now has been reduced to about 2.8. CEA best-in-class performance is 1.3.*

report on performance

PEOPLE

TEAMWORK

The Teamwork long-term goal enables improvements in teamwork and will help BC Hydro achieve its other long-term goals. Ultimately, success in implementing the teamwork goal will only occur through changing employee behaviour at all levels!. By aligning the goals of all employees, from the front line to senior management, we can move towards achieving our company's purpose of reliable power, at low cost, for generations.

This year we incorporated teamwork into key projects such as our Integrated Energy Plan and our focus on safety. In Fiscal 2006 there was also a focus on improving the leadership capability within the organization. Two examples of programs that help us to develop employee leadership are "Leading for Results" and "Safety Leadership."

"Leading for Results" is a week-long leadership development program for managers and includes work on customer leadership, personal leadership and team leadership. A total of 236 managers completed "Leading for Results" this year. Four hundred and twenty-four employees completed the new "Safety Leadership" training. This training outlines safety roles and responsibilities as a manager, crew leader or employee.

In the future we will add a teamwork focus to Human Resource programs such as Leadership Development, Performance Management, succession planning and career path development.

Employee Programs

Having healthy employees is a priority for BC Hydro. Our goal is to provide employees with the resources they require to make safe and healthy choices at home and at work – from benefit choices to pension planning and compensation decisions.

In terms of retention, providing clear expectations, recognition and rewards is intended to ingrain our growing performance culture and strengthen the link between compensation and employee performance. Updates to our performance planning online tool, as a result of employee input, have streamlined and clarified the process. We also implemented a job evaluation system for management and professional employees that is roles-based and better aligns to our performance management process.

Our health and wellness initiatives for Fiscal 2006 included:

- Clarifying and expanding the wellness mandate to continue raising awareness of depression, increasing the planning and organizational skills of managers, and continuing with detailed health screens for all employees
- Raising manager and employee awareness about health in general
- Increasing employee awareness of the linkage between benefits, pension and pay as a total rewards package
- Maintaining support of the health and wellness programs currently being offered, such as health screens and depression awareness training

Employee Relations

BC Hydro's two unions, the International Brotherhood of Electrical Workers (IBEW) Local 258, and the Canadian Office and Professional Employees (COPE) Local 378, ratified a total of four contracts in this fiscal year. One-year agreements were signed in April and June 2005 with the IBEW and COPE, respectively. Then, in March 2006, four-year agreements were reached with both unions under the Province's Bargaining Framework. BC Hydro's and its unions were the first public sector unions to reach agreements. This is in large part due to the tremendous effort made by all parties involved.

Employee Conduct Policy

The Director and Employee Code of Conduct guides the conduct for BC Hydro board members, employees, suppliers, consultants and contractors and suppliers. The code is available on BC Hydro's website at **www.bchydro.com/policies/openness/openness18156.html**.

report on performance

Social

BC Hydro has a wide-reaching social responsibility policy, as shown through our community involvements, business actions and decisions. Our main areas of focus are building strong working relationships with First Nations, continuing to resolve grievances, and partnering with suppliers who support the triple bottom line approach to business to ensure that all aspects of our business and operations are sustainable.

At the same time, we are listening to the communities in which we operate to make business decisions. As part of this, we are actively involved in outreach activities with communities, agencies and associations through our grants-in-lieu programs, providing scholarships to students and outreach funds to communities and organizations across British Columbia.

Social Responsibility Policy

BC Hydro's Social Responsibility Policy was adopted in 2005. The policy outlines that we are committed to producing, acquiring and delivering electricity in an environmentally, socially and financially responsible manner.

Although our primary responsibility as a business is to provide a supply of reliable and low-cost electricity to our customers, our business depends on the relationships we build with others in the community. We recognize these interrelationships and will strive to act in an ethical and respectful manner when dealing with our stakeholders, customers, First Nations, employees and communities.

More specifically, BC Hydro:

- Respects and responds to the diverse cultures and interests of customers and the communities where we live and work.
- Contributes to the well-being of communities we serve through grants, scholarships, philanthropy and community service.
- Invests in our employees' health, safety and capacity for leadership.
- Is accountable for our actions and impacts, and responds promptly to incidents or risks arising from our business.
- Conducts our work in a manner that demonstrates a polite and respectful attitude towards the property of others.
- Seeks products, services and new supplies of energy that take into account environmental and social responsibility.
- Promotes the principles of energy efficiency and resource conservation.

report on performance

SOCIAL

CORPORATE CITIZENSHIP

Corporate and Regional Donations

In Fiscal 2006 we continued to support a variety of community initiatives and programs throughout the province of British Columbia. We invested $1,005,453 in about 440 projects in support of arts and culture, First Nations initiatives, community investment, education and the environment. The contributions we made ranged from $100 to $25,000 and reached communities all over B.C.

As an example, BC Hydro contributed $10,000 to Volunteer Vancouver towards the 2005 Volunteerism Academy held in October 2005 in Vancouver. The B.C. Volunteerism Academy brought together leadership volunteers from across British Columbia to celebrate the impact and importance of volunteering in our province. BC Hydro also supported the Land Conservancy of British Columbia in a multi-year agreement through a $10,000 donation for three years toward its Eco-Activity Guide for households across B.C.

Employees' and Retirees' Social Commitment

The BC Hydro Employees' Community Services Fund (HYDRECS) is an employee-and retiree-managed fund that supports Canadian charities in the health and social services sector. Employees made donations to a total of 635 charities through the fund. Total contributions made through the HYDRECS fund by employees and retirees for the 2005 calendar year were $832,229. Additional support for local charities is provided through the organization's Community Growth and Relationship Funds.

The BC Hydro Power Pioneers Association, with 15 branches throughout British Columbia, is made up of 2,700 retired BC Hydro employees and their spouses. Their motto, "Continuing a Lifetime of Service to our Communities," was demonstrated by over 110,000 hours of community service recorded in the calendar year 2005 for many local charities and service clubs. Some of their provincial partnership projects include Youth Community Service Awards, Regional School Science Fairs, B.C. Seniors Games, Seniors Safety and Crime Prevention, and B.C. Children's Hospital. This year, they raised a total of $26,000 to support B.C. Children's Hospital.

Corporate/Regional Donations

	F2002	F2003	F2004	F2005	F2006
Amount Allocated *(Dollars in thousands)*	1,150	1,000	1,000	1,035	1,005
Percentage Allocation					
Arts and Culture	9	3	7	5	3
Education	4	0	2	14	10
Environment	12	8	10	4	5
United Way	26	21	17	17	14
Aboriginal	5	12	7	8	13
Regional	24	27	22	24	26
Scholarships	12	16	10	13	15
Employees' Community Services Fund	8	11	10	10	10
Community Investment	0	3	15	7	5

Corporate and regional donations are monetary grants or in-kind contributions provided to registered charities or not-for-profit organizations to support cultural, social and economic well-being in British Columbia. In Fiscal 2006 BC Hydro supported a variety of community initiatives and programs throughout the province of British Columbia, and focused its community giving in five main funding areas: arts and culture, aboriginal initiatives, community investment, education and environment, as well as scholarships. The donation requests BC Hydro approved were aligned to its purpose and long-term goals and enhanced its long-term community relationships.

report on performance

SOCIAL

Employee (HYDRECS) Donations

Dollars (in thousands)	F2002	F2003	F2004	F2005	F2006
BC Hydro Employees	777	766	550	539	630
BC Hydro Retirees	82	88	93	90	90
Corporate Donation	96	100	100	100	100
Fundraisers	26	7	32	30	50
50/50 Draws	n/a	53	52	52	53
Total:	981	1,014	827	811	923

Through the BC Hydro Employee's Community Services (HYDRECS) Fund, registered charities in the health and social service sector in B.C. benefit from the generosity of BC Hydro and Powerex employees and retirees. Contributions made in Fiscal 2003 and prior include employees transferred to the British Columbia Transmission Corporation and Accenture Business Services for Utilities.

In Communities

BC Hydro Community Relations staff throughout the province interact with stakeholders on a daily basis, from customers and special interest groups to mayors, municipal councils, Chambers of Commerce, service clubs and local residents. Community Relations plays a vital role in connecting to stakeholders, working collaboratively to resolve issues, and contributing to building and maintaining public consent for BC Hydro to operate.

Public Safety

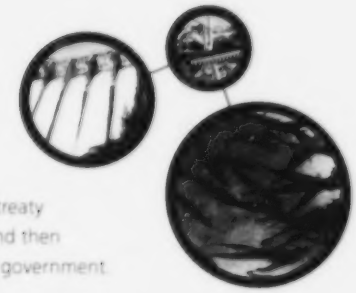
Public safety is a key concern to BC Hydro. At our facilities and generation sites, we develop and implement public safety management plans to remove or reduce the risk of public injury. We also demonstrate due diligence by identifying and mitigating known dangers and hazards associated with our operations. As part of increasing public awareness about electrical hazards, BC Hydro also creates advertising to warn workers of potential dangers, and promotes the Seven Steps to Electrical Safety for the general public and industrial workers. In Fiscal 2006 BC Hydro delivered 738 safety-related presentations to over 59,000 program participants, including elementary schools, construction workers and emergency response personnel.

Coquitlam Dam Upgrade Project

To ensure customer and local safety, BC Hydro also monitors its facilities to promote public safety for B.C. residents. The Coquitlam Dam was built more than 90 years ago. Investigative engineering work completed in 2000 showed that the dam could be seriously damaged in a major earthquake, and therefore, negatively impact public safety. As a result, the reservoir level behind the dam was lowered to mitigate earthquake risk and BC Hydro decided to build a new rockfill embankment dam immediately downstream of the existing dam. Construction began on the embankment dam downstream from the Coquitlam Dam in January 2006. In addition, as part of the "no net loss" habitat replacement requirement under the project's environmental approval process, modifications to the fish-rearing pond downstream and additional habitat conservation work were included in the plan.

report on performance

SOCIAL



Associations and Memberships

BC Hydro is a member of and participates in many associations that help us to advance our triple-bottom-line objectives. Some of these associations include:

- World Business Council for Sustainable Development
- World Economic Forum
- Canadian Business for Social Responsibility
- Energy Council of Canada
- Globe Foundation of Canada – Excellence in Corporate Environmental Leadership (EXCEL) Partnership
- Business Council of B.C.
- Cambridge Energy Research Associates (CERA)
- Canadian Electricity Association
- Vancouver Board of Trade
- B.C. Sustainable Energy Association

We strive to be actively involved with each of these and with other associations.

FIRST NATIONS

First Nations Long-Term Goal

This year BC Hydro established and began to implement our First Nations strategy to support our 20-year goal to "improve relationships built on mutual respect and that appropriately reflect the interests of First Nations." The strategy has multi-year resources committed to support the initiatives over a 20-year period that build on the corporation's long-established Principles for Relations with Aboriginal People. The long-term strategy has seven strategic components for which short-term objectives will be created, achievable over the next one to five years.

Aboriginal Relations and Negotiations

BC Hydro continued negotiations with First Nations related to impacts associated with BC Hydro's Peace and Bridge River generation and transmission facilities. In Fiscal 2006 there were also major consultation and engagement activities involving First Nations on a number of Water Use Plans for generation facilities, and the 2006 Integrated Electricity Plan.

BC Hydro continued participation in the provincial caucus of the B.C. Treaty Commission tri-partite treaty negotiations to ensure that our facilities and associated rights were identified and accounted for in land selections for Stage 4 and Stage 5 treaty negotiations. Stage 4 negotiations include preliminary agreements on issues such as, but not limited to governance, land use and ownership, resources, social development, cultural preservation and protection of the environment. Stage 5 involves negotiating a treaty that finalizes the agreement, and then it is presented to the provincial government.

Over the past several years, employment, economic development and education initiatives were initiated, including the Aboriginal Business Partnership Program, a program to help small and medium-sized aboriginal businesses to expand or start up, and several initiatives aimed at increasing training and hiring of aboriginals. Since its inception, the program has awarded more than 120 grants totalling more than $1 million. A wide variety of businesses have been supported, including computer services, electrical contracting, excavating companies, sawmills, catering and first aid services.

SUPPLIERS

BC Hydro's Suppliers long-term goal involves seeking suppliers with values congruent to BC Hydro's. It directly supports BC Hydro in our goal of being a sustainable energy company. It also helps us to maintain a triple-bottom-line focus in our delivery of energy in an environmentally and socially responsible manner.

BC Hydro is a large purchaser of goods, with approximately $400 million worth of equipment and materials acquired annually. In addition, BC Hydro publicly tenders a significant volume of consulting, construction, maintenance and vegetation clearing contracts to third-party suppliers.

In May 2004 the BC Hydro Board of Directors ratified a corporate social responsibility policy, which included a commitment to seek products, services and new supplies of energy that take into account environmental and social responsibility. In order for the policy to be successfully implemented across BC Hydro, we have developed ethical values for purchasing and have begun work to incorporate environmental protection clauses in tender documents.

In further support of this commitment, BC Hydro became a member of the Social Purchasing Network whose mandate is to support organizations in their efforts to develop and improve their sustainability purchasing practices and to ultimately influence positive environmental, social and economic impacts for British Columbia.

Next year we will focus on ensuring that this policy is effectively interpreted and executed by all operations within BC Hydro. The Supplier goal is a fundamental building block to satisfying the requirements of this new social responsibility policy.

report on performance

Environment

BC Hydro is working diligently to operate our business in ways that produce no net environmental impacts. We also mitigate impacts by working with stakeholders and investing in remediation projects such as revegetation or investment in fish stocks.

We want to grow a culture of conservation and efficiency and encourage our customers to make thoughtful energy choices. A reduction in energy use by B.C. residents will lead to reduced environmental impacts and can even reduce the need for us to build new facilities.

We have included some key examples here of what we are doing to increase conservation and reduce our impact on the environment.

BC HYDRO'S ENVIRONMENTAL RESPONSIBILITY POLICY

BC Hydro's Environmental Responsibility Policy reflects our commitment to maintain today's environmental footprint, even as the demand for electricity continues to grow.

Consistent with our purpose of providing reliable power at low cost, for generations, BC Hydro is committed to producing, acquiring and delivering electricity in an environmentally, socially and financially responsible manner.

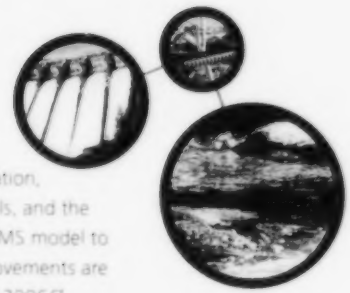
BC Hydro's environmental priority is to avoid causing impacts. However, we know that operating our energy system causes impacts on the environment and on other users of publicly shared resources. Therefore, where impacts are created, we will work to reduce them, enhance affected habitat, and sustain resources over the long term.

Specifically, BC Hydro will:

- Meet or exceed environmental requirements defined by legislation, regulation, government directives and guidelines, and our commitments and agreements.
- Better understand the effects of our business as a means to continuously improve our environmental performance.
- Work cooperatively with stakeholders and First Nations on resource use, management, and conservation to increase public benefits from affected resources.
- Publicly report on our environmental performance.

report on performance

ENVIRONMENT



NO NET INCREMENTAL ENVIRONMENTAL IMPACT

The Triple Bottom Line Project

Triple-bottom-line (TBL) decision-making is about ensuring that environmental, social and financial aspects of a decision are considered and the business risk and value are incorporated in decisions.

This year BC Hydro worked on developing a framework for consistent application of TBL decision-making. The framework could apply to many decisions: purchasing office supplies, disposing of waste, or deciding how best to achieve energy conservation. In one pilot application conducted this fiscal year, options for disposal or recycling of steel and copper components from generating units were assessed based on their environmental, social and financial risk and value.

Future projects that will incorporate TBL decision-making include office space planning and the strategy to supply reliable power for non-integrated communities. BC Hydro is working to improve data quality and assurance in our review of our performance measures in three stages. We are developing a framework to assist us in beginning the first steps in Fiscal 2006/7.

Environmental Footprint

In the past year BC Hydro has reduced some environmental impacts and taken steps to ensure that other future impacts are minimized. BC Hydro maintains a number of diesel generating facilities in non-integrated areas, providing reliable power to communities not connected to the electricity grid. In Fiscal 2006 we replaced four inefficient diesel generators with cleaner units and we are investigating renewable options for communities where there are options for electricity supply. To account for future greenhouse gas emissions from new on-grid generation facilities, we incorporated greenhouse gas considerations and targets for 50 per cent clean electricity in our 2005 Open Call for Power and 2006 Integrated Electricity Plan. BC Hydro continued work on contaminated sites including a cooperative effort with Transport Canada and the City of Victoria to remediate the 6.8-acre Rock Bay site in Victoria and return it to productive use in the community by 2007.

Environmental Management Systems

This year BC Hydro upgraded its environmental management procedures to conform to the requirements of the new International Standard Organization (ISO) 14001 2004 standard. ISO 14001 is a world-recognized framework for managing significant environmental aspects over which BC Hydro exerts significant control. An audit to assess the effectiveness of BC Hydro's Environmental Management Systems (EMS) found that the framework is effective for achieving and monitoring environmental compliance. Some key areas for improvement are system integration, alignment to our long-term goals, and the potential for expansion of the EMS model to other sustainability issues. Improvements are planned for this system in Fiscal 2006/7.

Environmental Incident Reporting

BC Hydro's environmental incidents are internally reported, communicated and assessed through the intranet-based Environmental Incident Reporting (EIR) system. All incidents are evaluated to ensure the environmental response is appropriate and complete, and lessons learned are documented and applied to prevent similar incidents from occurring elsewhere. In Fiscal 2006 the total number of BC Hydro incidents recorded in the EIR system was 106, slightly less than the 119 incidents recorded in Fiscal 2005. An incident is defined as anything that has an adverse impact on the quality of air, land or water, wildlife, aquatic species or species at risk or that violates statutes or damages heritage or archaeological resources. Of the 106 incidents reported in Fiscal 2006, 47 exceeded thresholds requiring reporting to a regulatory agency.

For example, with hydroelectric generation, spills of oil to water are a significant environmental risk. In July 2005 a pipe burst in the Peace Canyon Generating Station intake structure resulting in a release of 830 litres of oil. Most of the oil was recovered in the powerhouse but an unknown amount escaped into the Peace River through the construction joints and the dam drainage sump. Immediate measures were taken to recover the oil to minimize impact to the environment. To prevent similar incidents, the intake gate control systems were assessed and repaired. Further preventive measures include the installation of level alarms on the sumps and berms to isolate the construction joints in the intake structure.

In February 2006 high winds from a storm brought three cottonwood trees down on a large transformer adjacent to Elk Lake near Victoria, a highly sensitive environmental and recreational site. Trained field crews were able to respond quickly, recovering 500 litres of oil and preventing another 500 to 600 litres of spilled oil from spreading to the lakeshore. Local municipalities and response crews cooperated to provide emergency power to the regional water supply system while the spilled oil and contaminated soil were safely removed and a new transformer was installed.

Compensation and Restoration Programs

BC Hydro established our compensation programs with the province to mitigate historic impacts on fish and wildlife resulting from the construction of our dams. The programs involve stakeholder and First Nations engagement, research projects and other compensation initiatives. Examples of these projects are listed below.

report on performance

ENVIRONMENT

Columbia Basin Fish and Wildlife Compensation Program

The Columbia Basin Fish and Wildlife Compensation Program delivers projects to conserve and enhance fish and wildlife in the Canadian portion of the Columbia Basin. The program marked its tenth anniversary in 2005. In Fiscal 2006 BC Hydro provided $3.9 million to be shared among 11 fish and 22 wildlife projects. The Compensation Program is the largest funding partner in a multi-stakeholder effort to restore grassland ecosystems in the Columbia Basin. It continues to support the fertilization programs in the Arrow Lake Reservoir and Kootenay Lake. The program and its partners have also helped to restore 20,000 hectares of grassland through timber harvesting, slashing and prescribed burning. Grasslands represent less than one per cent of B.C.'s land base but provide habitat for more than 30 per cent of the province's at-risk species. The Compensation Program and its partners are leaders in B.C. when it comes to grassland ecosystem restoration. This approach is now being used as a model in other parts of B.C. and around the world. Since 1995, BC Hydro's contributions have totalled more than $34 million.

Peace Williston Fish and Wildlife Compensation Program

The Peace Williston Fish and Wildlife Compensation Program operates within the watershed of Williston and Dinosaur Reservoirs in northern B.C. During Fiscal 2006 the program directed $1.2 million to 18 fish and 14 wildlife research and enhancement projects. Fish projects included work with Arctic Grayling throughout the Williston watershed. Wildlife projects included research on goats and Stone's sheep. Since the program's inception in 1988, BC Hydro has committed to funding projects each year, and has spent a total of $27 million.

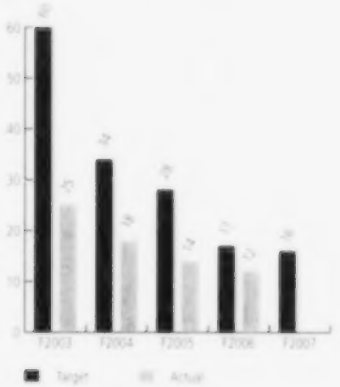
Bridge Coastal Restoration Program

Established in 1999 in partnership with the Government of Canada (Fisheries and Oceans Canada) and the Government of B.C. (Ministry of Environment), the Bridge Coastal Fish and Wildlife Restoration Program (BCRP) continued to restore fish and wildlife resources that were adversely affected by the original footprint development of hydroelectric facilities in the Bridge Coastal Generation Area in Fiscal 2006. Specific footprint impacts addressed through BCRP funds include the historical effects on fish and wildlife as a result of reservoir creation, watercourse diversions and the construction of dam structures.

In Fiscal 2006 BCRP funded 33 fisheries projects and six wildlife projects through grants totalling approximately $1.8 million. Among the 39 projects undertaken in Fiscal 2006, BCRP continued to support fish habitat restoration through gravel placement and channel creation, tracking of salmonid migration pathways, enhancement of elk habitat on Vancouver Island, habitat and population inventories on owl species, and a long-term initiative to assess the feasibility of re-establishing fish passage upstream of the Coquitlam Dam. Since 1999 BCRP has invested approximately $7.5 million in fish and wildlife resources.

Environmental Regulatory Compliance

Number of Incidents



Definition: *Environmental Regulatory Compliance (ERC) is the number of externally reportable, preventable environmental incidents.*

Variance Explanation: *Results for the Environmental Regulatory Compliance measure are better than the target for Fiscal 2006. Results can be attributed in part to the efforts invested in the Environmental Management System including staff training and root cause investigation of incidents. The overall trend of this measure over the last four years indicates the number of ERC incidents has declined, however, the difference is within the historical variability of this measure.*

Benchmarks: *No benchmark data available.*

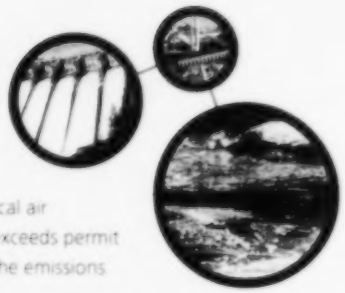
Juvenile Upper Columbia River White Sturgeon Release

Since 2000 BC Hydro has been involved in the Upper Columbia River White Sturgeon Recovery Initiative to help restore the white sturgeon population on B.C.'s portion of the Columbia River. The program is shared between the provincial and federal governments and BC Hydro to ensure that the white sturgeon population can be restored over the next 30 years.

In May 2005, 30 Kindergarten to Grade 7 school children from across the West Kootenay region helped release 6,000 juvenile white sturgeon below Hugh Keenleyside Dam near Castlegar. The children were paired with 30 local Grade 11 biology students as part of a program to increase participation in sturgeon recovery efforts. In 2005 BC Hydro also developed 24 interactive sturgeon education kits for elementary school students that are used in classrooms to increase awareness of and participation in the sturgeon release event.

report on performance

ENVIRONMENT



Air Management

BC Hydro manages air emissions through emission reduction equipment at each facility designed to reduce local air emissions and, on a corporation-wide level, to address greenhouse gas (GHG) emissions. BC Hydro meets or exceeds permit requirements for facilities that require an air emissions permit. There are currently no regulations concerning the emissions of greenhouse gases in Canada or B.C.

BC Hydro has put a series of programs in place aligned with our long-term goals to manage GHG emissions that ensure low costs to our customers and reduce potential liability under future GHG regulations. These programs include:

- **Power Smart** demand-side management – 1,957 GWh in cumulative annual incremental energy savings, equivalent to the GHG emissions of a 250 MW natural gas-fired generating facility
- **Resource Smart** operational efficiencies and facility upgrades – Although no projects were undertaken in Fiscal 2006, cumulative energy savings in projects undertaken to date contributed over 2,000 GWh, equivalent to the GHG emissions of a 250 MW natural gas-fired generating facility.
- **Green gigawatt hours** – 1,007 GWh in Fiscal 2006, avoiding the equivalent of half the GHG emissions from a 250 MW natural gas-fired generating facility

BC Hydro's air and GHG emissions are tracked and reported on a calendar year basis in line with regulatory expectations. For the 2005 calendar year, BC Hydro's emissions are compiled in accordance with the Greenhouse Gas Protocol created by the World Business Council for Sustainable Development and the World Resources Institute. The table below provides a summary of GHG emissions attributable to electricity delivered to BC Hydro customers in the 2005 calendar year.

Total GHG emissions are down from 2004 as a result of higher water supply and lower operation of thermal generating facilities and lower net imports for domestic use. BC Hydro's GHG intensity continues to remain one of the lowest for electric utilities in North America.

Greenhouse Gas (GHG) Emissions

Calendar Year	Base Year	2001	2002	2003	2004	2005
Direct GHG Emissions						
BC Hydro Thermal Facilities	1,249	2,385	296	259	448	283
Fugitive Sulphur Hexaflouride (SF6)	116	81	64	77	67	62
Buildings	4	4	3	1	3	3
Vehicles	15	15	15	18	16	15
Indirect GHG Emissions						
Building Electricity and Steam Consumption	7	19	4	13	5	4
B.C.-based Independent Power Producers	14	512	818	809	1,188	863
Customer-Based Generation and Load Displacement	N/A	N/A	N/A	N/A	285	290
Offsets						
Island Cogeneration Project		(120)	(250)	(260)	(327)	(296)
Total GHG Emissions from Electricity Generation in B.C.	1,404	2,896	950	917	1,685	1,223

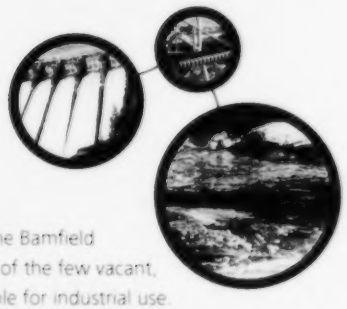
Notes

- *Numbers reported in carbon dioxide equivalent kilotonnes (kt CO2e)*
- *Base Year is the average for 1989 through 1993*
- *Building Electricity and Steam Consumption has been added to the Inventory for 2005 and updated back to 2001*
- *GHG impacts due to net import/export are not included*
- *See Global Reporting Initiative Comparative Index for complete Inventory details*

Total GHG emissions from generation in B.C. are lower than 2004 as a result of higher water supply for hydroelectric facilities and lower operation of thermal generating facilities.

report on performance

ENVIRONMENT



Fleet Vehicle Emissions Reductions

Fleet Services is actively investing in hybrid vehicles in order to increase sustainability in the vehicle fleet. This year 19 Toyota Prius passenger cars, 23 Ford Escape SUVs and six Mercedes Smart cars are in service with more on order. The environmental benefit of this initiative represents a trade-off against the additional incremental cost of these units. In addition, eight heavy vehicles are currently operating with biodiesel.

Land Management

BC Hydro has thousands of kilometres of power lines, hundreds of facilities, and many tonnes of materials that must be transported safely every day throughout the province. As well, contact with vegetation can create serious safety hazards or cause electrical outages. For these reasons, we adhere to standardized professional procedures to remove and manage vegetation to maintain the safe, reliable delivery of power. Pruning and removal decisions are made using internationally recognized best practices to ensure long-term environmental sustainability.

Community Regreening

Maintaining and improving BC Hydro's service ensures that trees growing near power lines are healthy and well maintained but don't compromise the power lines. BC Hydro removes declining, damaged or hazardous trees that threaten power lines, and replants the area with attractive, low-growing species. In 2004 we launched Community Regreening partnerships with local communities to reduce electrical hazards while enhancing urban forests – creating safer, more attractive, sustainable, communities in which to live.

To date more than 80 communities have benefited from Regreening funding. Some of the funds are distributed through the Tree Canada Foundation (TCF), which enables us to offer the program in smaller and more remote communities, where TCF community representatives assist with the applications. Community Regreening contributes to tree planting programs in parks, schools and recreation areas, funding urban forest projects in communities ranging in size from Masset and Tseshaht to Kamloops and Vancouver.

Management of Contaminated Sites

In Fiscal 2006 BC Hydro initiated a process to further define corporate-wide accountabilities for contaminated sites management through the property life cycle, including property acquisition, currently owned property, rights of way, leases and licenses, property transfers, property disposal, and historically owned and leased sites. We also carried out a detailed review of non operating properties that have not yet been studied, in order to identify those historically operated sites that may be contaminated based on past use. This work will continue on in Fiscal 2007 and will lead to action plans to address key environmental risks identified.

Bamfield Diesel
Remediation Project

The land formerly occupied by the Bamfield Diesel Generating Station is one of the few vacant, serviced sites in the village suitable for industrial use. At the request of the Alberni-Clayoquot Regional District, BC Hydro accelerated its remediation of hydrocarbons previously spilled on the site. Early remediation of the site was completed in the fall of 2005. The provincial Crown lease was relinquished in advance of its termination date, making the property available for the community.

Rock Bay Remediation Project

The Rock Bay Remediation project is a joint undertaking of BC Hydro and Transport Canada and has received strong support from the City of Victoria. The project began in Fiscal 2005. The first stage of the project, which focused on coal-tar contaminated soil on the eastern portion of the site, was completed in August 2005. It involved excavation and off-site soil treatment techniques including the use of naturally-occurring bacteria to break down the contaminants at a treatment site in Delta, and destruction of contaminants at a thermal treatment plant in Princeton.

The second stage of the project began in September 2005 and is expected to be completed by October 2006. This stage involves the excavation and treatment of coal tar contaminated soil on the western portion of the property. BC Hydro is also addressing some residual PCB-contaminated soil in this stage. Low-level PCB-contaminated soil will be destroyed at the thermal treatment plant in Princeton and high level PCB-contaminated soil will be shipped to a thermal treatment plant in Quebec, as the Princeton plant is not permitted to treat this soil. Some of the soil will remain in a secure, permitted storage facility on site and will be the subject of bioremediation treatability studies.

Recycling and Waste Management

In Fiscal 2006 4,201 tonnes of non-hazardous materials were diverted from landfills. This is an increase of 24 per cent from the previous year. Materials included scrap metals, wood, and paper. The result is a landfill diversion rate of 77 per cent, exceeding the Fiscal 2005 rate of 75 per cent. The Fiscal 2007 target for the landfill diversion is set at 78 per cent. By 2025, BC Hydro's long- term goal is to divert 95 per cent of non-hazardous waste from landfills.

Managing Polychlorinated Biphenyls (PCBs)

To maintain high levels of service BC Hydro continuously upgrades our distribution transformers as load increases or as units fail. This process continually reduces the number of older units that could contain PCB-contaminated oil. This year, BC Hydro completed the second year of a three-year testing program in which ground-level transformers containing PCBs are identified. Since the inception

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of the program, BC Hydro has confirmed PCB levels for about 60 per cent of all ground-level transformers and identified 392 units that exceed the threshold. One hundred and five units with higher levels or located in sensitive areas will be replaced by the end of 2009, whereas 287 units with lower levels will be replaced by 2014.

Species at Risk

BC Hydro has developed many initiatives to comply with federal and provincial Species at Risk legislation. We have also assisted with the development and implementation of programs, policies and regulations to protect biodiversity now and in the future.

Some of our key efforts include:

- Incorporation of Species at Risk needs in water use plans
- Membership in federal and provincial species at risk policy and regulatory committees to link compliance with stewardship
- Active involvement in recovery programs

This year, in collaboration with the B.C. Conservation Data Centre, BC Hydro developed a Geographic Information System-based management system to better manage business risks and reduce the impacts on species at risk. BC Hydro continued to be an active partner in the Canadian Intermountain Joint Venture, with ongoing communication of BC Hydro's environmental initiatives and increased recognition. This is relevant to permitting under the *Canada Species at Risk Act and the Migratory Bird Convention Act*.

WATER MANAGEMENT

Water Use Planning

BC Hydro began our Water Use Plan (WUP) program in November 1998. The WUP program provided the company with an opportunity to engage the public in an open discussion on how our hydroelectric facilities are operated. Participants include BC Hydro, local government, government agencies, First Nations, and other interested parties. These discussions deal with important social, safety and environmental issues, with specific concerns raised by First Nations, and with the uncertainties and challenges of changes in the future. As well, all participants are given the opportunity to discuss the trade-offs involved in balancing power generation with the need to meet various environmental and social objectives. The resulting WUPs reflect a balance of the economic, environmental and social values related to water resources at the local, regional, provincial and federal levels.

Since the program's inception, a total of 23 WUPs have been developed for BC Hydro's hydroelectric facilities. As of the end of Fiscal 2006, 22 Water Use Plans had been submitted to the provincial Comptroller of Water Rights for review and approval. Fifteen plans have been approved and publicly announced, with the remainder still under review.

Implementation of a WUP begins after the provincial Comptroller of Water Rights accepts the recommendations set out in a WUP. The Comptroller, through licences and orders issued under British Columbia's *Water Act*, implements the WUP. These regulatory water licence requirements may include special operating measures, monitoring studies and/or physical works. Implementation of each approved WUP requires cooperation with many external partners.

ELECTRICITY CONSERVATION AND EFFICIENCY

Electricity Conservation Initiatives

Conservation is one of the key pillars of our Integrated Electricity Plan. In order to develop a conservation culture among our customers, we will continue to provide a wide variety of incentives and programs that encourage wise use of energy. Power Smart and our demand-side management initiatives have helped to promote a conservation mindset amongst our customers.

In Fiscal 2006 BC Hydro's demand-side management initiatives continued to successfully deliver cost-effective energy with cumulative annual incremental energy savings of 1,957 GWh. A variety of programs contributed to that achievement, with the residential sector saving an incremental 68 GWh per year, commercial saving 81 GWh per year, and the Industrial sector saving 96 GWh per year on efficiency projects and 323 GWh per year on load displacement.

While we have been successful in helping our customers to save money and energy, we believe we need to do more in this area. Following on the Integrated Electricity Plan, we will be adding several programs and initiatives to enhance and assist our customers to meet our joint goals around energy efficiency.

We have included some of our key accomplishments with respect to energy conservation in the next section.

Customer Electricity Intensity

Kilowatt Hours Per Residential Account

	F2004	F2005	F2006
Residential (kWh/account/year)	10,761	10,722	10,846

Residential electricity intensity is calculated by dividing consumption in the residential sector by the average number of residential accounts over the fiscal year. Actual billed use per account for Fiscal 2006 was 10,846 kWh/account, which was 82 kWh/account or 0.76 per cent above forecast, and 232 kWh/account or 2.19 per cent above the actual billed use per account in Fiscal 2005. Use per account is rising mainly due to increased penetration levels of plug-in load such as computers and home entertainment equipment.

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Demand Growth (with and without Demand-Side Management)

Growth Rate

	F2004	F2005	F2006
with DSM (%)	2.6%	1.6%	2.7%
without DSM (%)	3.1%	2.9%	3.7%

The growth rate is calculated as the year-over-year change in domestic load. "Growth rate with DSM" refers to incremental Power Smart impacts beyond implemented Power Smart programs. The rate of growth has increased due to strong economic growth, and a robust housing market. We expect the demand growth rate to decrease due to a slowdown in housing starts, and BC Hydro load displacement projects coming on line.

High Performance Building Program

Power Smart launched the High Performance Building Program in June 2005. The program involves working with the B.C. development and design industries, building developers and owners to create better buildings that cost less to operate, have lower environmental impact and are healthier places in which to live, work and play. The program provides financial incentives and tools to help qualified projects design and construct to energy-efficient standards.

Power Smart Business Programs

Providing educational opportunities to BC Hydro business customers is critical in order to increase the adoption of energy efficiency as part of standard operating practice. BC Hydro partnered with the British Columbia Institute of Technology to design and deliver three high-efficiency lighting courses and with Douglas College to offer the Building Environmental Systems program.

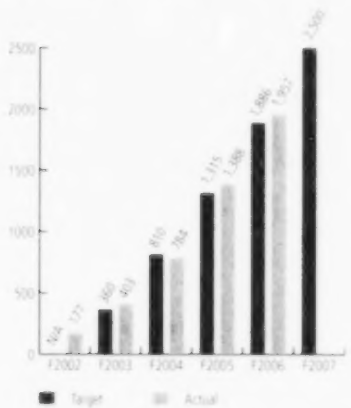
Another critical component of Power Smart's sustained long-term success this year is the creation of a variety of industry partnerships. To better reach small and medium sized businesses, BC Hydro established partnerships with key associations to promote the benefits of energy efficiency to their respective members. Working together with groups such as Retail B.C., Building Owners and Managers' Association, and British Columbia & Yukon Hotels' Association, BC Hydro will continue to communicate and encourage an energy conservation ethic through educational opportunities, speaking engagements, and access to Power Smart programs.

Power Smart Certified Program

Promoting industry leaders in energy efficiency to their peer organizations is a strong tool to catalyze change and engage business customers. In Fiscal 2006 Canadian Auto Parts Toyota Inc. became the first Power Smart Certified customer from the industrial sector.

Demand-Side Management

Gigawatt Hours Per Year



Definition: *The rate at which electricity is being saved as a result of BC Hydro's Demand-Side Management (energy efficiency and load displacement) programs and activities since Fiscal 2002.*

Variance Explanation: *Demand-Side Management (DSM) savings in Fiscal 2006 were above target due to greater than planned savings in the residential sector. The residential Compact Fluorescent Lighting (CFL), Seasonal Light Emitting Diode and Refrigerator Buy Back programs have triggered substantially more savings than was anticipated when the Fiscal 2006 target was established.*

Benchmark Comparisons: *No benchmark data is available.*

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An additional 24 businesses and organizations were honoured with Power Smart Excellence Awards for their leadership in energy efficiency. The Power Smart Excellence Awards is a province-wide recognition event for customers and partners that demonstrate excellence in the implementation of Power Smart solutions, energy-efficient design in the construction and renovation of buildings, and application of innovative, energy-efficient process improvements.

Canfor Load Displacement Project

Canfor completed construction of its load displacement project in Prince George during the fall of 2005. They received an incentive from BC Hydro for this project and as a result, are contracted to provide 390 GWh per year of load savings over the next 15 years.

Power Smart Residential Programs

Our Power Smart residential programs have been well received by customers who want to reduce their electrical consumption. The Power Smart Refrigerator Buy-Back Program continued to operate across the province, collecting more than 31,000 refrigerators. BC Hydro paid customers $30 to pick up their second refrigerators and dispose of them in an environmentally friendly way.

In September 2005 BC Hydro launched a Windows Rebate program with the aim of transforming the residential window market to a point where ENERGY STAR™ windows are legislated as the window standard in British Columbia. Partnering with the Ministry of Energy Mines and Petroleum Resources, BC Hydro is able to offer this program to new and existing homes, and both gas - or electric-heated homes, across the province.

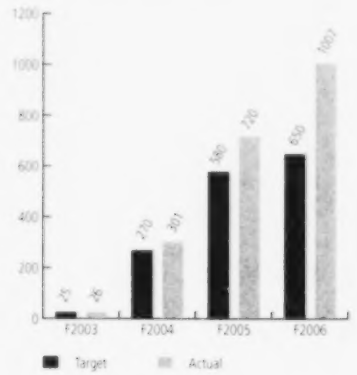
Continuing to build on the success of the residential Compact Fluorescent Lighting program from previous years, a fall 2005 campaign was launched for in-store and mail-in rebates towards the purchase of specified compact fluorescent lights, compact fluorescent torchieres and seasonal LED light strings. Customers were encouraged to trade in their energy inefficient lighting products for high-value in-store coupons at local retailers to be used towards the purchase of energy-efficient replacements.

Power Smart Students Program

BC Hydro's Power Smart Students Program educates the consumers of tomorrow on the value and benefit of energy conservation and sustainability. The School Campaigns and Movie-Making program (Grades 4 to 7), and Energy Reviews program (Grades 10 to 12) help to build a conservation culture by encouraging students to take action in their schools. The program is also part of our commitment to contribute to the communities in which we live and work.

Green Energy Purchases

Gigawatt Hours Per Year



Green gigwatt hours (GWh) is the cumulative gigawatt hours contracted from green sources that meet purchase price limits, and includes projects from the 2000 Expression of Interest, 2001 Green Call, one project from the 2002 Customer-Based Generation (CBG) Call and the 2003 Green Power Generation Call.

The results are above target as the Green GWh definition was established over four years ago, and was not updated when BC Hydro acquired additional green energy over planned acquisition targets in the two Green Calls. In addition, CBG projects were reported out under a separate measure. This is the first year that all green projects are reported under one measure and the CBG measure is abandoned.

In Fiscal 2006 Power Smart Students program workshops were delivered in 42 school districts across British Columbia. Over 300 schools participated in the program with over 40,000 students receiving the energy conservation and sustainability messages. In the Power Smart Students Energy Reviews program, students made presentations outlining potential energy conservation opportunities within the schools to 18 school district Boards of Trustees. The student presentations motivated specific school districts to consider undertaking energy efficiency-related projects, of which many received funding and approval.

Resource Smart

BC Hydro's Resource Smart Program was introduced in the late 1980s. It promotes the identification, study and implementation of projects that provide cost-effective energy gains at our generating facilities. The projects also have little or no environmental impact once they are built.

Currently planning studies are underway to review the option of adding a power plant at Duncan Dam, redeveloping the Falls River project, adding capacity at La Joie and rehabilitating the Ash river unit. If these projects prove to be attractive, they will be included in their respective Facility Asset Plans and reported as Resource Smart projects. Further opportunities may be advanced as a result of the review of the Resource Smart inventory update completed in July 2005.

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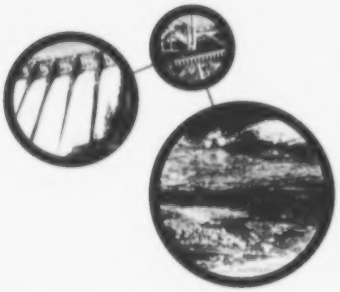


New Transmission Rate For Customers (Stepped Rate)

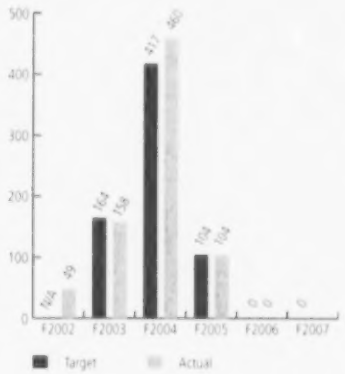
On April 1, 2006, BC Hydro's transmission voltage customers (62 customers and 116 sites) were transitioned over to a new Stepped Rate plan. A stepped rate enables customers to pay two different prices for their electricity, depending on their historic use of the resource. This two-tier rate will see the first 90 per cent of customers' annual energy priced at a lower rate of 2.428 cents per kWh and any additional energy priced at 5.4 cents per kWh, which is closer to the incremental cost of new energy. If a customer uses the same amount of annual energy as compared with historic consumption, the customer's annual bill will remain the same.

The new Stepped Rate structure encourages customers to conserve and use electricity efficiently. BC Hydro has tools and resources available to assist customers to optimize their energy use, which will benefit customers and also help achieve BC Hydro's Electricity Conservation and Efficiency long-term goal.

To show the potential impact, if customers affected by the new rates were to reduce consumption by 10 per cent (at the Tier 2 price indicated by the rate) in Fiscal 2006, this would represent a significant reduction of 1,700 GWh. This is equivalent to providing service to 170,000 homes and has a savings value of $90 million.

Resource Smart Energy Gains Put Into Service

Gigawatt Hours (GWh)



Resource Smart Energy Gains Put Into Service are the projected, long-term average incremental energy gains for existing Generation facilities, which are put into service during the year.

Targets are based on the identification, study and implementation of projects that provide economic energy gains at existing BC Hydro facilities, and typically have little incremental environmental impact. These targets support the Government objective of 50 per cent of new electricity supply from clean energy sources. The target for Fiscal 2006 is zero rather than the 31 GWh stated in the Fiscal 2006 Revenue Requirements Application because the completion of the Cheakamus G2 Turbine Upgrade (23 GWh) has been delayed and the Strathcona Turbine Upgrade (8 GWh) has been cancelled. While no new projects are targetted for Fiscal 2006/7, 93 GWh of new energy is planned in Fiscal 2008.

OTHER ENERGY-RELATED INITIATIVES

Green Power Certificates

Helping our customers to use energy in a sustainable manner is important to BC Hydro. One of the ways we do this is through the Green Power Certificate (GPC) program, which started in the fall of 2002. Green Power Certificates help to create demand for green energy generation in B.C. Each certificate represents the green attributes and emissions reductions from one megawatt hour of green power generation.

Clean Energy Results

Another example of our commitment to meeting our environmental long-term goals is BC Hydro's 50 per cent BC Clean Energy Target to be achieved over a 10-year period beginning in Fiscal 2003 and ending in Fiscal 2013. Since the establishment of the clean energy target in 2002, all new energy acquired has been BC Clean. The Energy Plan defines Clean Energy as energy from alternative energy technologies that result in a net environmental improvement relative to existing energy production. Examples include: hydro, wind, solar, photovoltaic,

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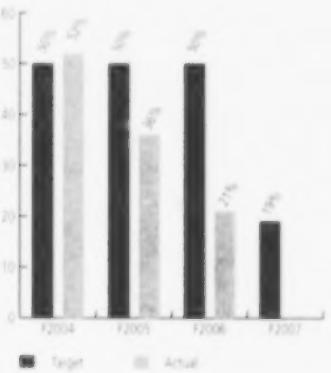
geothermal, tidal, wave and biomass energy, as well as some cogeneration from heat and power, and energy from landfill gas and municipal solid waste projects that meet the BC Clean Energy guideline, fuel cells and efficiency improvements at existing facilities (i.e. Resource Smart projects). For BC Hydro, this means supply commitments made after November 2002, or an energy efficiency improvement at an existing facility that came into service after the same date, meet the definition as outlined in the guideline.

Use of EcoLogo

The Environmental Choice Programs (ECP) has been adopted as BC Hydro's third-party certification process to evaluate Independent Power Producers (IPP) green power facilities. The ECP uses renewable low-impact criteria to assess existing and new IPP facilities. Facilities meeting ECP criteria for electricity will be eligible to use the EcoLogo mark, indicating their facilities generate "green power." ECP has criteria to assess water-powered, biogas-fuelled, biomass-fuelled, solar-powered and wind-powered generators. The evaluation occurs when the facility is operational which means that not only is the facility required to meet existing provincial regulatory requirements, but it must demonstrate that it operates in an environmentally-responsible manner as well.

Percentage



The B.C. Government's Energy Plan defines BC Clean Energy as alternative energy technologies that result in a net environmental improvement relative to existing energy production. Examples may include hydro, wind, solar, photovoltaic, geothermal, tidal, wave and biomass energy, as well as some cogeneration of heat and power, and energy from landfill gas and municipal solid waste that meet the BC Clean Energy guidelines, and fuel cells and efficiency improvements at existing facilities. For BC Hydro this means, projects that are built in B.C. and represent supply commitments made after November 2002 for new green or clean energy projects, or energy efficiency improvements at existing facilities that were committed to after that date. The Clean Energy target of 50 per cent of incremental load (which is essentially new supply requirements) is to be achieved over a 10-year period, beginning in 2002/2003 and ending in 2012/2013.

Since the establishment of the clean energy target in 2002, all energy acquired has been BC Clean, the percentage figure represents the actual volume of BC Clean Energy that has come on line or on the grid in that current year against the incremental load for that same year. The annual results will fluctuate with the amount of incremental demand over Fiscal 2003 levels, and the timing, volume and type of actual supply delivered. Since Fiscal 2003 there has been a significant increase in our demand due to economic activity. In addition, there has been attrition in the volume of BC Clean Energy delivered relative to that contracted. Had the attrition rate been lower for IPPs coming on line, BC Hydro would have imported less energy for domestic needs and our actual percentage would have been closer to target. BC Hydro is in the progress of developing an appropriate strategy for meeting the target over the remaining reporting period.

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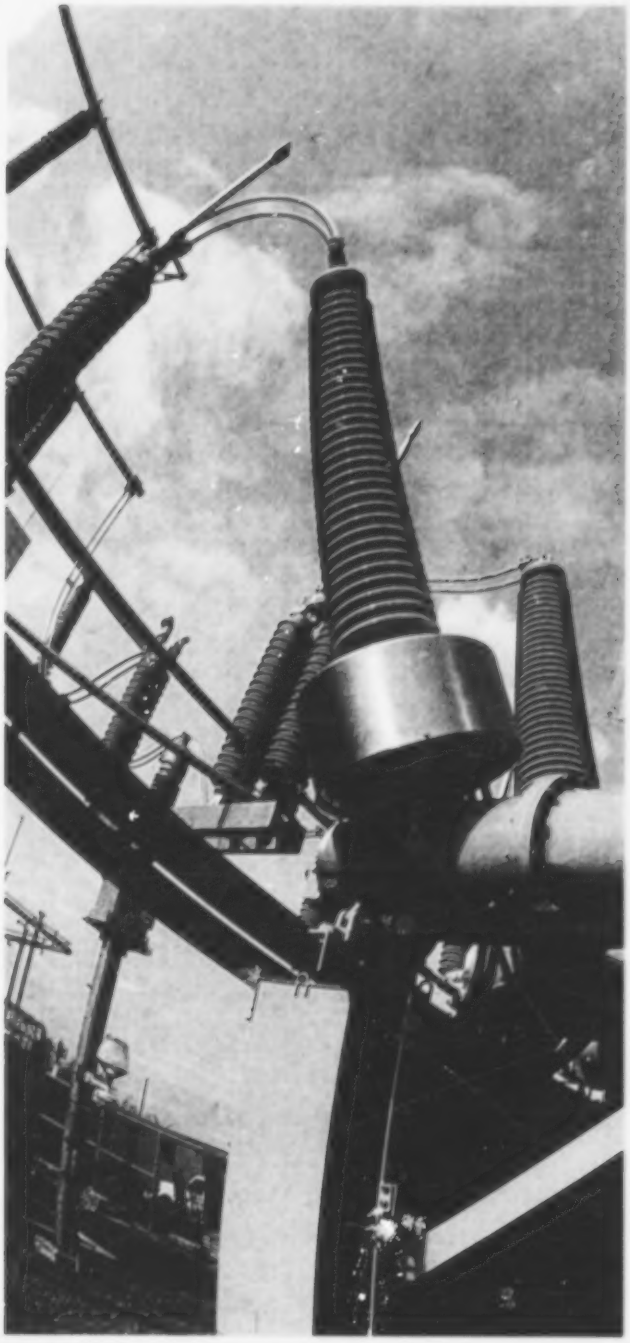
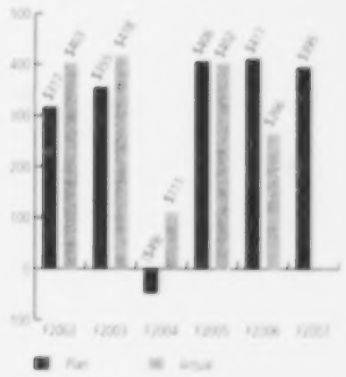


BC Hydro's financial results are affected by the success of our trading activities, maintenance of our aging assets, the growth of electricity usage across the province and the price of purchased energy from IPPs or the market required to meet it. We are planning and investing wisely to ensure that we can continue to provide electricity at low cost for future generations, as well as being able to meet our financial targets. The highlights of our financial performance are included on the next few pages and in the Management Discussion and Analysis and Consolidated Financial Statements begining on page 62.

Net Income
Dollars (in millions)



Definition: *Net income is defined as total revenue less total expenses after net change in regulatory accounts, and represents the net impact of key economic and business factors that affect BC Hydro's performance. Regulatory account transfers reflect the results of the application of various orders issued by the BCUC that result in customer rates being more stable and not subject to fluctuations based on reservoir inflows, market prices and other factors. These orders generally result in deferral and amortization of costs and recoveries to allow for adjustment in future rates.*

Variance Explanation: *Net income of $266 million is $145 million below Plan primarily due to the cost of energy for meeting higher than Plan load, higher operating costs and amortization expenses offset by lower finance charges and taxes.*

Benchmark Comparison: *BC Hydro's allowed rate of return for Fiscal 2006 was 13.51 per cent, as approved by the BC Utilities Commission in its rate decision of October 29, 2004, which translates to net income of $408 million. The allowed return on equity has been calculated to equal, on a pre-income tax basis, that of the most comparable investor-owned utility.*

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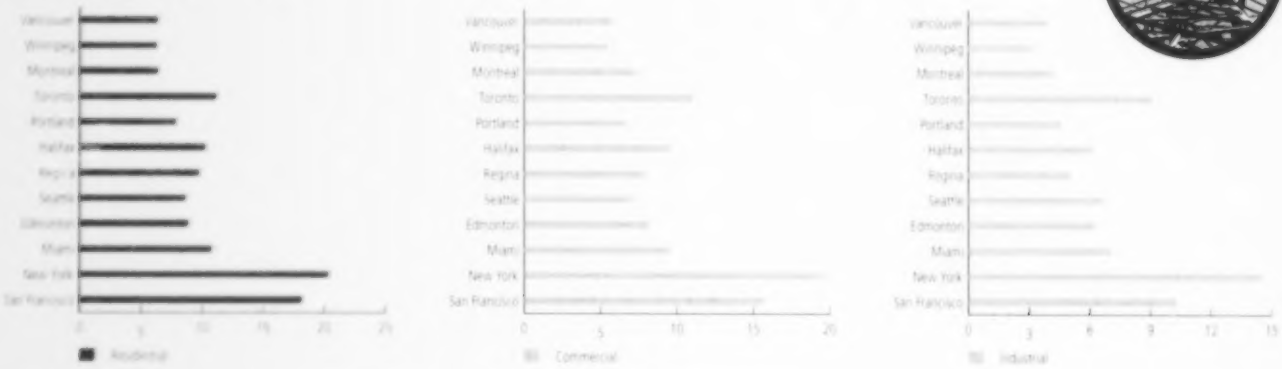
Comparison of Average Electricity Rates

Canadian Cents per Kilowatt Hour



Note: The source for all data is Hydro Quebec's "Comparison of Electricity Prices in Major North American Cities"
The rates in this publication are those that were effective on April 1, 2005.

Total Operating Costs

Dollars (in millions)

	F2000	F2001[1]	F2002[2]	F2003	F2004	F2005[1]	F2006[1]
Operations & Administration Expenditures	344	N/A	N/A	302	358	471	538
Maintenance Expenditures	97	N/A	N/A	271	263	246	267
Total Operating Costs	441	755	550	573	621	717	805

Operations and administration expenses for Fiscal 2006 were higher than the previous year primarily due to an increase in demand-side management program expenditures and the First Nations settlement provision, offset by the reclassification of certain transmision charges to cost of energy and lower legal and environmental provisions.

Maintenance expenditures were higher than the previous year as a result of expenses paid to BCTC and for vegetation programs due to the Pine Beetle infestation.

Note 1: Fiscal 2005 and Fiscal 2006 reflect the impact of Accounting Guidelines 19, Disclosures by entities subject to Rate Regulations, regarding the recognition and measurement of assets and liabilities subject to rate regulation.
Note 2: An allocation of operating costs between operation and administration and maintenance for Fiscal 2002 is not directly comparable to Fiscal 2003 onwards due to changes in accounting methodology.

Billed Sales, by Region

Percentage of Total Sales

	F2002	F2003	F2004	F2005	F2006
Lower Mainland	47.6	47.5	47.5	47.1	47.3
Northern Region	18.7	18.5	18.7	19.2	19.0
South Interior	12.6	12.5	12.5	12.3	12.4
Vancouver Island	21.1	21.5	21.3	21.4	21.3
Total:	100	100	100	100	100

The table shows the historical regional billed sales, including sales to other utilities as a percentage to the total billed sales. Billed sales are not weather adjusted. BC Hydro's total billed sales increased 2.7 per cent between Fiscal 2005 and Fiscal 2006, and increased 21 per cent since Fiscal 1998. The increase in sales reflects the continuous strength in B.C.'s economy and strong sales to BC Hydro's industrial customers. The Lower Mainland has the largest share of total billed sales, with a corresponding growth of 3.2 per cent over the previous fiscal year. However, of the four major regions, the largest increase in billed sales between Fiscal 2005 and Fiscal 2006 occurred in the South Interior with a 3.4 per cent increase over the previous fiscal year. The increase in the South Interior can be attributed to strong wood products activity. Mining and lumber production supported moderate sales growth in the Northern Region. Despite these increases, the rate of growth in this region lagged the other three regions over the past fiscal year. Vancouver Island total billed sales increased by 2.4 per cent over last fiscal year which reflects strong growth in residential sales.

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Total Payroll and Total Benefits, by Region

Labour Costs, by Region (excluding benefits)

Dollars (millions)	F2002	F2003	F2004	F2005	F2006
Lower Mainland	311	318	260	256	254
Vancouver Island	36	36	31	31	35
Northern Region	33	35	33	32	34
South Interior	43	46	43	43	41
TOTAL	423	435	367	362	364
% increase/decrease	*9.59%*	*2.84%*	*-15.63%*	*-1.36%*	*0.19%*

Estimated Benefits Costs, by Region

Based on % of Labour	25.5%	28.3%	32.4%	34.8%	34.8%
Dollars (millions)	F2002	F2003	F2004	F2005	F2006
Lower Mainland	79	89	84	89	88
Vancouver Island	9	11	10	11	12
Northern Region	9	10	11	11	12
South Interior	11	13	14	15	15
TOTAL	108	123	119	126	127

Figures do not include BC Transmission Corporation or Accenture Business Services for Utilities. Labour costs shown are as per the Financial Information Act. Total number of employees by region is not calculated using full-time equivalent positions or number of inactive employees.

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OPERATIONAL, LEGAL AND REGULATORY RESULTS

For more information on Financial Results, see the Management Discussion and Analysis Report on page 63.

Water Supply and Reservoir Storage

Our largely hydroelectric generating system is heavily dependent on precipitation and reservoir levels to meet our financial targets. The water supply into BC Hydro reservoirs was 99 per cent of normal for the year ending March 31, 2006. BC Hydro total reservoir storage on March 31, 2006 was 2,725 GWh above average and slightly above the storage level in March 2005.

A year of extreme weather events provided challenges in managing the BC Hydro water system. The last quarter of Fiscal 2005 had below-normal market prices, which prompted heavy energy purchases. In early Fiscal 2006 high precipitation in the Williston reservoir brought local inflows to well above normal and the need to manage levels to prevent spills. By the middle of Fiscal 2006 global energy demand and Hurricane Katrina forced energy prices up significantly lasting until the end of the third quarter. By then, a mild winter across North America left gas storage levels healthy and energy markets responded with declining prices. As snowpack levels were low and energy prices were also low, BC Hydro purchased record-high levels of energy in the last quarter of Fiscal 2006, which is not typical for that time of year.

The April snowpack is a good indicator of seasonal water supply. Based on snowpack conditions as of April 1, 2006 the BC Hydro system water supply forecast for the April-through-September 2006 period is 93 per cent of normal. This included the Williston basin at 92 per cent, the Mica basin at 91 per cent, the Revelstoke basin at 82 per cent, and Arrow basin at 100 per cent. The Williston and Columbia project reservoirs' water supply represents about 80 per cent of the system inflow. Coastal and Vancouver Island projects' water supply ranged from below to above normal.

Capital Projects

A number of significant projects related to our dams and generating facilities are underway. These projects address reliability, safety concerns and efficiency.

Maintaining unit reliability is increasingly challenging because the condition of many of the components (turbines, generators, exciters, transformers, etc.) of the Heritage Resources are declining, as is the condition of several of BC Hydro's generating facilities. During Fiscal 2006 BC Hydro completed 32 Generation asset plans in preparation for the significant capital expenditures that will be needed in future years to maintain the reliability of the generating facilities.

These projects include:

Seven Mile Dam Safety Improvements
The Seven Mile Dam is located on the Pend d'Oreille River south of Castlegar. The safety improvement project was initiated in 2002 and completed in Fiscal 2006. The $65 million project addressed deficiencies to meet dam safety standards and criteria, which have become more stringent since the dam came into service in 1979. The stability and drainage of the dam was improved, as well as the structure of the spillway and reliability of the spillway gates.

Mica Generator Stator Replacement
The Mica Dam and Powerhouse are located along the Columbia River, north of Revelstoke. In 2005 BC Hydro began the replacement of the four generator stators at the Mica Generating Station. A stator is the stationary part of the generator in which the rotor turns. The four stators will be replaced at the rate of one per year starting in 2006, with expected completion in Fiscal 2010. The total cost of the project is $78 million.

Peace Canyon Stator Replacement
The Peace Canyon Dam and Generating Station are located in northeastern B.C. on the Peace River. In July 2005 BC Hydro reached an agreement with our original equipment manufacturer for the generators at Peace Canyon to replace the four generator stators. These generators have had a history of operational and maintenance problems since commissioning in 1979/80. The agreement calls for the replacement of the four generator stators at the rate of one per year starting in 2006, with expected completion in Fiscal 2010. The total cost of the project is $67 million.

G. M. Shrum Stator Upgrade and Capacity Increase
The G.M. Shrum Generating Station is located 23 kilometres upstream from the Peace Canyon Dam in northeastern B.C. BC Hydro has completed an assessment to identify the work and preliminary costs associated with upgrading all 10 units at the G. M. Shrum Generating Station to a capacity of 300 to 305 MW (a potential increase in total plant capacity of approximately 320 MW). This project is currently undergoing environmental regulatory review. The key components of the upgrade include installing new poles on the generator rotors, upgrading each unit, and re-rating existing circuit breakers. The capacity increase is expected to be completed by fall 2008 on the first unit, and by fall 2009 on the next two units. The expected stator replacement costs for the first and second stator replacement is $37 million, and for the third and fourth stators is $46 million.

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FINANCIAL

Revelstoke Unit 5 Project

The Revelstoke Dam and Generating Station are located on the Columbia River near Revelstoke. It is a facility designed for six generating units but only four were installed. The scope of the Revelstoke Unit 5 Project is to design, procure, purchase and install a fifth generating unit. The current capital plan includes a provision for $200 million in expenditures for this project.

Aberfeldie Dam

Aberfeldie is located east of Cranbrook in southeastern B.C. and consists of to generating units. The scope of the project includes dismantling the existing powerhouse, switchyard, penstock and pipeline, and other equipment associated with the existing facility. The project will begin in July 2006 and its estimated completion date is fall 2008. The total expected cost of the project is $64 million.

Coquitlam Dam Seismic Improvement Project

The Coquitlam Dam was built more than 90 years ago. Investigative engineering work completed in 2000 showed that the dam could be seriously damaged in a major earthquake, and therefore, negatively impact public safety. As a result, the reservoir level behind the dam was lowered to mitigate earthquake risk and BC Hydro decided to build a new rockfill embankment dam immediately downstream of the existing dam. Construction began on the embankment dam downstream from the Coquitlam Dam in January 2006. It is scheduled to be completed in 2007. The total expected cost of the project is $58 million.

POWEREX

Powerex continues to defend its interests in lawsuits stemming from the California energy crisis of 2000/01.

California Lawsuits

Powerex had three lawsuits filed against the company by the Attorney General of California. In Fiscal 2006, one of these lawsuits was dismissed (with a second dismissed in April, Fiscal 2007). Both of these lawsuits are being appealed. The third lawsuit has been sent back to California State Court and Powerex has filed a motion to dismiss the case.

A separate class action lawsuit into which Powerex and BC Hydro were drawn was also dismissed. All legal and regulatory rulings to date are subject to appeal. Powerex will continue to aggressively defend itself as these lawsuits work their way through the legal process.

U.S. Department of Energy Filing

Powerex received a five-year renewal of its U.S. Department of Energy (DOE) export permit enabling the export of electricity from the U.S. to Canada. The permit was renewed without any of the onerous restrictions advocated by certain California parties. After a thorough review of the California protest and Powerex's submissions, the DOE determined there were no grounds upon which to restrict Powerex's permit. The renewal of this permit also gives Powerex greater certainty in its future trade activities with the U.S.

Western Energy Co-ordinating Council Reliability Audit

In July 2005 Powerex underwent a standard reliability audit for utilities in the WECC region. The results of the audit were very favourable and highlighted the strong operating practices implemented by Powerex to support electrical reliability in the Western region.

report on performance

FINANCIAL

REGULATORY

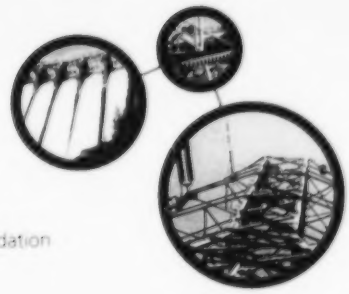
In Fiscal 2006 BC Hydro was successful in reaching negotiated settlements with its customers, the British Columbia Utilities Commission (BCUC) and stakeholders due to our teamwork on two applications filed in March 2005 – Stepped Rate and the 2005 Resource Expenditure and Acquisition Plans. The details of each settlement are listed in the chart below.

Negotiated Settlement	Details	Outcomes
Stepped Rate	BC Hydro successfully negotiated through a BCUC-sponsored process stepped rates for transmission voltage customers whereby any consumption over 90 per cent of a customer's historical energy use will be charged a rate reflecting the cost to BC Hydro of acquiring new supply. Almost all of the retail access provisions allowing large customers to choose among suppliers for their electricity needs were agreed to in the settlement and were further refined in a subsequent application to the BCUC. The settlement and additional applications to address outstanding matters arising from the settlement were approved by the BCUC in Fiscal 2006.	The stepped rate took effect on April 1, 2006, and will be in place for at least three years. Retail wheeling will also be available to customers on that date. This fulfills two policy actions of the 2002 Energy Plan. These were to develop new rate structures to provide better price signals to large electricity consumers for conservation and energy efficiency and enable large electricity customers to choose a supplier other than BC Hydro.
2005 Resource Acquisition and Expenditure Plan (REAP)	BC Hydro reached a BCUC-sponsored negotiated settlement with customers and Independent Power Producers on certain aspects of the REAP application that describes BC Hydro's short-term plans to serve customers' electricity needs by demand-side management, improvements to BC Hydro's system and acquiring new energy supplies.	Approval of the settlement allowed the Fiscal 2006 Open Call for Power to proceed immediately.

report on performance

FINANCIAL

AGREEMENTS AND REGULATORY FILINGS



BC Hydro was successful in filing its Integrated Electricity Plan on March 29, 2006, and securing a recommendation to government from the BCUC to exempt the Canal Plant Agreement from regulatory oversight.

Agreements and Fillings	Details	Key Highlights/Outcomes
Canal Plant Agreement	In the summer of 2005 BC Hydro and Kootenay area major power producers negotiated an amendment and restatement to the 1972 Canal Plant Agreement (CPA). BC Hydro and FortisBC jointly applied to the BCUC for the agreements, and any future amendments to them to be exempt from regulatory oversight to provide the unregulated parties with the certainty that the agreements would not be amended by the BCUC. The government gave approval to the BCUC for these exemptions on March 30, 2006.	The agreement provides for BC Hydro and other major power producers in the Kootenay area to continue to cooperate in operating their available storage and generation facilities to obtain optimal generation from their plants.
2006 Integrated Electricity Plan (IEP) and Long Term Acquisition Plan (LTAP)	The 2006 IEP describes how BC Hydro could address its customers' electricity needs over the next 20 years and the resource options available to meet those needs under various assumptions and risks. The LTAP identifies the actions in the next 10 years that will be taken to meet these needs and seeks determinations by the BCUC that certain specified activities are in the interest of current and future customers. The 2006 IEP/LTAP was filed with the BCUC on March 29, 2006. The IEP was provided in support of the LTAP that is the subject of review by the BCUC.	The review of the application has commenced with the issuing of information requests to BC Hydro on April 21, 2006.

report on performance

Enablers

OVERVIEW

BC Hydro believes that the best way to achieve its business potential is by incorporating stakeholder engagement into its actions and decision-making processes, engaging in trade activity and developing new and innovative technologies.

Stakeholder engagement helps us to build consensus and support for our business decisions through the exchange of information and ideas.

With respect to the financial aspects of our business, trade activity helps us to do our work by generating significant revenues and income for BC Hydro through Powerex, BC Hydro's energy marketing subsidiary. These revenues are for the benefit of customers, as they help us to keep rates lower.

And we would not continue to move forward without technological innovation and research. This is an integrated business practice within BC Hydro that provides information and an opportunity for us to achieve our long-term goals and improve our triple-bottom-line performance.

report on performance

ENABLERS

STAKEHOLDER ENGAGEMENT

BC Hydro's long-term goal is to become the most respected company in B.C. To that end, BC Hydro believes that those affected by its business should be informed about its activities, be involved in transparent processes and participate in addressing issues and opportunities that affect them.

Our stakeholders include people and organizations that have an interest in, or are impacted by what we do and how we do it. To successfully deliver reliable, low-cost power for generations, BC Hydro is committed to developing and maintaining relationships that build trust, and are open, honest and based on integrity. This model will enable BC Hydro to understand the long-term impacts of decisions, and appropriately engage First Nations, stakeholders and communities.

First Nations, who have unique constitutional and legal rights, are not considered part of the general body of stakeholders. BC Hydro has a separate long-term goal of building sustainable relationships with First Nations. Communication, engagement and consultation form part of the activities with First Nations to support the achievement of this goal.

BC Hydro initiated several key engagement processes this year to ensure that our dialogue and communication with stakeholders was a two-way process. Some of the initiatives are described below.

The 2006 Integrated Electricity Plan

BC Hydro is required to file an Integrated Electricity Plan (IEP) to the British Columbia Utilities Commission (BCUC) for public review every two years. The intent of the plan is to outline how BC Hydro could address our customers' electricity needs over the next 20 years.

To support the planning process, BC Hydro actively sought input from people across the province regarding the challenges and choices to be made regarding future long-term electricity supply. Multiple engagement streams were delivered concurrently to reach a diverse group of interested parties and communities. BC Hydro received and sought input on participants' values and interests related to potential resource options and trade-off decisions. Over 900 people participated in the various face-to-face opportunities identified in the table below. Meeting notes of the input documented from the process are available on BC Hydro's website.

Engagement Stream	Fall 2005 / Winter 2006	Spring 2006 / Fall 2006
Broad Public	15 community meetings	8 community meetings
Regional	15 community workshops	8 community workshops
Technical	3 technical workshops	
First Nations	7 community information sessions 6 community workshops	6 community workshops
Provincial IEP Committee	3 two-day meetings	2 two-day meetings; 1 three-day meeting

The Provincial IEP Committee was created as a forum where an in-depth and substantive discussion could take place. The group comprised BC Hydro staff and a small but representative group of stakeholders and First Nations to address key electricity planning questions. Over the course of 10 months, the group sought to identify the trade-offs inherent in long-term planning and identify people's values around planning questions, as well as understanding input from the other engagement streams and exploring the possibility of finding a consensus.

Across the engagement streams, participant feedback on the process was positive. Participants indicated they were pleased with the opportunity to become involved and that their expectations for learning about the resource options and IEP process were met. Most indicated that the process was valuable and that they would be interested in participating in future planning processes.

report on performance

ENABLERS

Additional Generator at Revelstoke: Unit 5

In the 2004 Integrated Energy Plan, Revelstoke Unit 5 was identified as an attractive, low-cost option to provide additional capacity (500 MW) to the integrated system. In September 2005 BC Hydro initiated stakeholder engagement, First Nations consultation and regulatory approvals for the proposed addition. This was done to make sure that all stakeholder perspectives were being considered. A core committee composed of government representatives, First Nations, community groups and residents was formed in November 2005 and has met several times to discuss recommendations and work towards the project. Assuming successful completion of this process and approval by the BC Hydro Board of Directors, on-site construction is scheduled to begin in early 2008 to meet a proposed in-service date of October 2010.

2006 Open Call for Power

BC Hydro conducts competitive acquisition processes to procure supply from the private sector, known as Independent Power Producers (IPPs). For the 2006 Open Call for Power, BC Hydro sought input from prospective IPPs in the competitive bidding process around ideas for the procurement and contractual terms and conditions. Many of these ideas and concerns were reflected in subsequent decisions around the design of the tender process in a way that the suppliers (and the regulator) could accept. BC Hydro also participated in a BCUC-facilitated negotiated settlement process with intervenors (including customer representatives, the Independent Power Producer's Association of British Columbia and individual IPPs) on the major aspects of the 2006 Open Call for Power. By engaging these parties in the discussion, insights were gained as to the competing concerns that BC Hydro was trying to balance in our process and in the final contractual terms.

Before issuing the Call for Tenders in December 2005, BC Hydro also conducted public meetings around the province to share information on how the corporation designs acquisition processes and to identify issues and concerns from stakeholders and First Nations. This input was solicited and then formally integrated through a web-based comment process. BC Hydro will continue to enhance and build relationships with interested stakeholders and First Nations in the design of future competitive calls.

BC Hydro Stakeholder Engagement Review

The Stakeholder Engagement Review evaluated the effectiveness of stakeholder engagement processes by surveying a wide range of stakeholders regarding BC Hydro's engagement performance. The initial survey was conducted in September 2005 and was built around four performance measures: Trustworthiness, Understanding of Stakeholder Interests and Concerns, Effectiveness of Engagement, and Effectiveness of Stakeholder Communication. The key findings of the 2005 survey will be disseminated in spring/summer 2006.

EXPANDING WESTERN BUSINESS OPPORTUNITIES

Powerex Trading and Sales Activities

PPowerex's trading income is consolidated into BC Hydro's total earnings and has a direct positive effect in helping to keep B.C.'s electricity rates among the lowest in the country. BC Hydro's domestic rates are approximately three to five per cent lower than they otherwise would be without this Powerex trade income.

Fiscal 2006 was a very good year for Powerex. As a result of expanded trade activities in all regions and enhanced operational capability, Powerex generated revenues of $1,546 million, an increase of 51 per cent compared with $1,021 million in the prior year. A large portion of the increase was due to a 25 per cent increase in average sales prices over the prior year. The volume of electricity traded during the year was 29,906 GWh, a marginal increase over the 29,706 GWh in Fiscal 2005.

In addition, Powerex supports energy requirements within B.C. through the import of power from the U.S. and Alberta. In Fiscal 2006, Powerex imported 5,853 GWh of electricity to service BC Hydro's domestic customers.

report on performance

ENABLERS

Trade Volume and Average Sale Price

	F2002	F2003	F2004	F2005	F2006
Electricity Trade Volume (GWh)	20,666	31,182	28,373	29,706	29,906
Average Sale Price (Dollars/MWh)	187	57	61	63	79

BC Hydro's electricity system is interconnected with systems in Alberta and the western United States. Interconnection facilitates sales and purchases of electricity outside British Columbia. Trade activities help BC Hydro balance its system by being able to import energy to meet domestic demand when there is a supply shortage in the system due to such factors as low water inflows and increasing domestic demand. Exports are made only after ensuring that domestic demand can be met.

Trade revenues for the year ended March 31, 2006 were $1,546 million, an increase of $525 million from prior year trade revenues of $1,021 million. A large portion of the increase was due to a 25 percent increase in average sales prices to $79/MWh from $63/MWh in the prior year. The increase in market prices was caused by increases in oil and natural gas prices due to supply interruptions in the U.S. Gulf Coast as a result of several hurricanes. Sales volumes also increased by one percent to 29,906 GWh in the year ended March 31, 2006 from 29,706 GWh in the prior year. Revenues have also increased as a result of gas sales to third parties.

INNOVATION AND NEW TECHNOLOGY

Technology and innovation are used to find innovative approaches to solve business challenges at BC Hydro.

Innovation at BC Hydro

In Fiscal 2006 BC Hydro undertook several key projects and research initiatives. Many of them helped us to improve our business practices, customer and supply reliability. Some significant accomplishments in Fiscal 2006 included an internal website developed and launched as a key internal communications tool to support information exchange and invite proposals, ideas and comments from employees. Employees also implemented a technological solution to improve safety-related documentation for the Field Services line of business. Another team worked with Power Smart to determine the feasibility of developing interactive software to promote the awareness of residential electricity use using in-home display monitors and home computers.

An industry benchmarking study was conducted to learn more about how other electric utilities design, implement and measure the innovative use of technology. Ten companies were interviewed regarding project structure, priorities, performance metrics, organization and resources.

Partnership opportunities are also being identified and sought with other utilities, government agencies, universities and technology institutes and non-profit agencies, to leverage knowledge and funding for new and innovative projects.

report on performance

ENABLERS

Three other key projects for the year included:

Ultrasonic Partial Discharge Detector
The ultrasonic probe (Ultraprobe) is an online tool that detects partial discharge in splices, terminations, cable and other connection hardware. Partial discharges usually occur before a cable breaks. The Ultraprobe works well with an existing set of assessment tools and enables maintenance staff to predict the likelihood of cable failure prior to an actual failure. The typical cost to replace a faulted splice and cable is $10,000, excluding the cost of outage and other risks. By predicting the failure of a defective component, it can be replaced during planned maintenance. The cost of planned maintenance is $2,500, much less than a replacement, which provides BC Hydro with savings of 75 per cent.

UBC Mechanical Refining and Pulping Research Project
Mechanical refining and pulping represents about 11 per cent of all of BC Hydro's customer sales. The goal of this program is to reduce the electrical energy consumption of mechanical pulping and pulp processing by 20 per cent and identify technology improvements that will enable us and our customers to do so. If this goal is met, BC Hydro will obtain approximately 12,000 GWh per year of savings. BC Hydro's engineering, sales and marketing staff have good knowledge of this industry, and have worked closely with pulp and paper customers to promote increased energy efficiency, ensure excellent relationships with the customers' staff and initiate new projects.

Voltage Optimization
Voltage optimization refers to our initiative with large commercial energy consumers to match incoming voltage to their equipment requirements. The intended result is reduced energy consumption with maintenance savings being a substantial secondary benefit. This is achieved through electrical system adjustments, installation of a voltage optimization device, or a combination of these actions. In Fiscal 2006 BC Hydro performed voltage optimization activities at the downtown Vancouver head office as well as the Burnaby and Nanaimo locations. We are conducting a pilot to install voltage optimizers to work in conjunction with our padmount transformers at six commercial customer locations. Voltage optimizers are currently eligible for financial incentives through BC Hydro's Product Incentive Program.

Innovation at Powertech

Powertech plays a dual role with BC Hydro – enabling the use of innovative technology in support of the utility's purpose and providing products and services to ensure the availability of innovative technology for future use. The company is a leader in high-pressure gas storage and fuelling technology, alternative energy and analytic software for the design and secure operation of integrated electric power systems. It collaborates with other technology agencies and is a highly regarded member of the local, provincial and global technology community.

In Fiscal 2006 Powertech provided services and products to about four hundred clients. The clients included utilities, electrical equipment manufacturers, and other manufacturers. However, Powertech is also cutting-edge from an environmental standpoint. Powertech is registered for its Environmental (ISO 14001:2004) and Quality (ISO 9001:2000) Management Systems. This year Powertech successfully met the audit standards and is now registered to the ISO 17025:1999 standard as an Accredited Testing Laboratory.

Hydrogen and Fuel Cell Programs

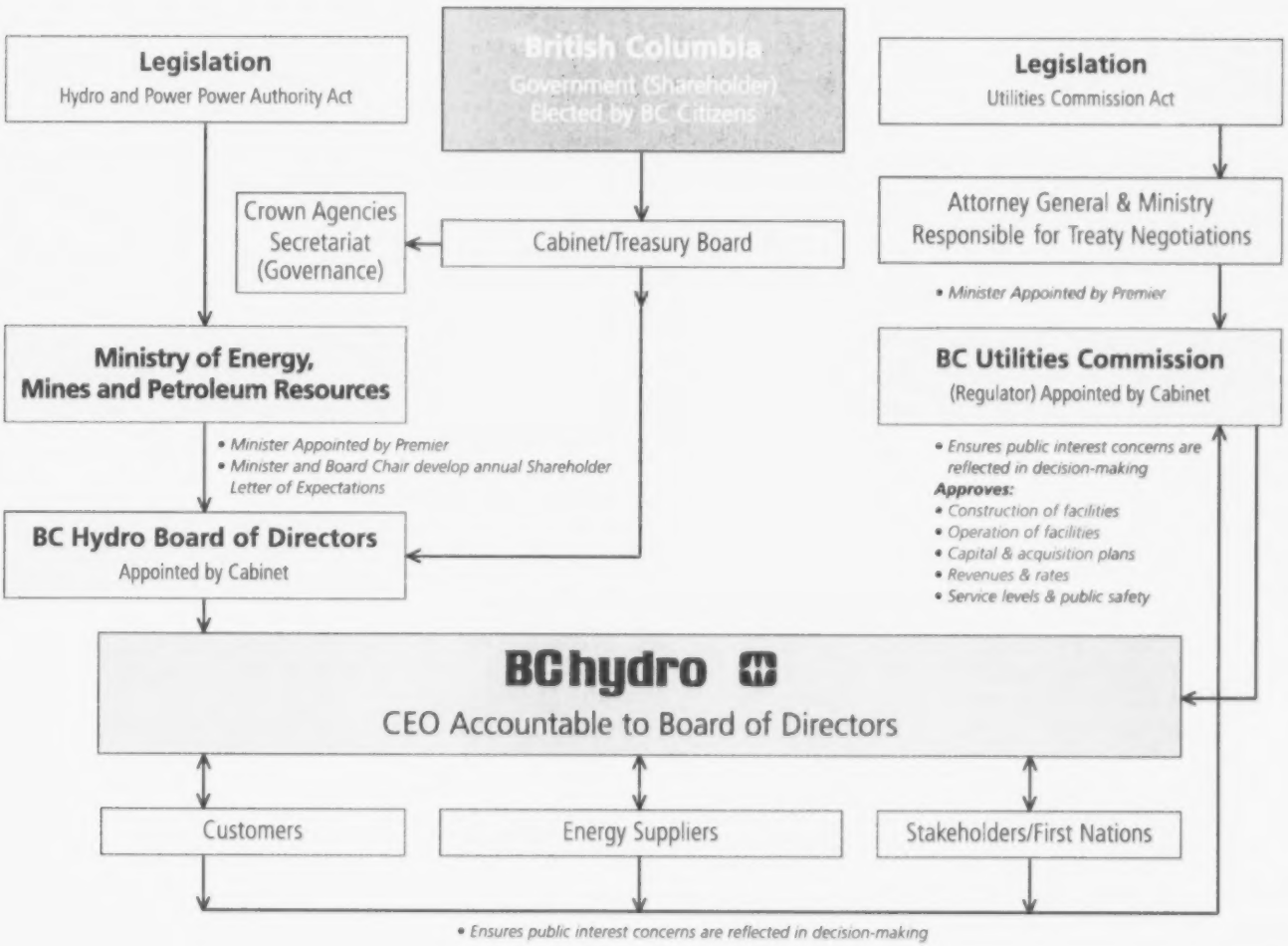
BC Hydro's Hydrogen and Fuel Cell programs focus on developing the knowledge, expertise and support infrastructure to enable the use of emerging hydrogen and fuel cell technologies in core operations. Fiscal 2006 saw the completion of several projects to increase reliability, reduce system costs and prepare for the possible commercial use of hydrogen vehicle technologies in the priority areas below.

Market Intelligence and Technology Assessment
- Completed the "Hydrogen Situation Analysis" which inventoried the state of the art in the hydrogen and fuel cell marketplace
- Continued the evaluation of the Ford fuel cell vehicle and assisted in the development of the codes and standards

Enabling New Technologies to Increase Reliability and Reduce System Costs
- Examined the practical production, delivery and use of hydrogen from industrial waste products in the Lower Mainland through a strategic investment in the Integrated Waste Hydrogen Utilization Project (IWHUP)
- Finalized the international patent on a unique fuel cell electrical output package for the utility environment

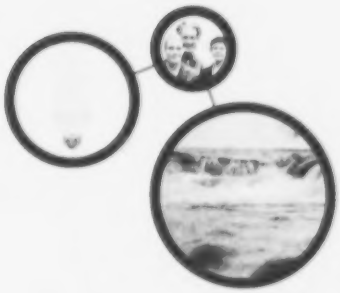
Preparing for Hydrogen-Fuelled Transportation
- Constructed a permanent hydrogen fuelling station at BC Transit in Victoria
- Completed a mobile high-pressure hydrogen fuelling station

BC Hydro Shareholder-Regulatory Relationship Framework


Legislation
Hydro and Power Power Authority Act
British Columbia
Government (Shareholder)
Elected by BC Citizens
Legislation
Utilities Commission Act
Crown Agencies Secretariat (Governance)
Cabinet/Treasury Board
Attorney General & Ministry Responsible for Treaty Negotiations
• Minister Appointed by Premier
Ministry of Energy, Mines and Petroleum Resources
BC Utilities Commission
(Regulator) Appointed by Cabinet
• Minister Appointed by Premier
• Minister and Board Chair develop annual Shareholder Letter of Expectations
• Ensures public interest concerns are reflected in decision-making
Approves:
• Construction of facilities
• Operation of facilities
• Capital & acquisition plans
• Revenues & rates
• Service levels & public safety
BC Hydro Board of Directors
Appointed by Cabinet
BC hydro
CEO Accountable to Board of Directors
Customers
Energy Suppliers
Stakeholders/First Nations
• Ensures public interest concerns are reflected in decision-making

As a provincial Crown corporation, BC Hydro has a number of important reporting relationships within the overall provincial government structure. These are detailed in the above chart. Included are the direct reporting relationship to the Minister of Energy and Mines, the governance function of the Crown Agencies Secretariat and the role that our regulator – the BC Utilities Commission – plays on behalf of the interests of our customers.

2006 STATEMENT OF CORPORATE GOVERNANCE PRACTICES



Overview

Government has established guiding principles on corporate governance for its Crown agencies that describe roles, responsibilities and accountabilities. A *Shareholder's Letter of Expectations* describes the relationship between the government as shareholder and BC Hydro on issues of mandate, performance expectations, public policy and strategic priorities. This letter is reviewed annually, updated as required and signed by the Chair on behalf of the Board of Directors of BC Hydro and by the Minister of Energy, Mines and Petroleum Resources as the government's representative. A companion document is the *Shareholder's Expectation Manual*.

BC Hydro's current governance framework was adopted in 1998 and has been regularly reviewed since that time to ensure its various components meet the corporation's ongoing business needs from a governance perspective, while being consistent with government's guiding principles on Crown agency corporate governance.

GOVERNANCE AND DISCLOSURE GUIDELINES FOR BRITISH COLUMBIA PUBLIC SECTOR BOARDS

Best Practice Guidelines on Governance and Disclosure were issued by government in February 2005 and organizations requested to meet the disclosure standards by April 2006. BC Hydro was one of the first public sector organizations to respond to the 12 disclosure requirements in October 2005. The disclosure includes terms of reference for the Board and its committees, the Chair, the Chief Executive Officer and the Corporate Secretary, together with related processes. Conduct expectations, director biographies, the number of Board and committee meetings held during the year and Director attendance records are also disclosed. The disclosure is updated annually and can be viewed at http://www.bchydro.com/policies/openness/openness26867.html.

BOARD OPERATIONS

BC Hydro's Board and Committee meetings are scheduled together on a quarterly basis to make the best use of the time for all involved. Time is allotted in each quarterly session for continuing Director education and these scheduled tutorials provide an opportunity to discuss strategy, a complex business issue or a specific aspect of the corporation's operations. Through its standing Committees, the Board has been kept informed on business issues during the past year, with continued focus on operational risk.

As with any business, there are times when special Board meetings are required outside the regular meeting schedule and a number of unscheduled meetings were necessary to address various emerging business issues last year.

STRATEGY FORMULATION

In 2004 the Board was instrumental in laying the foundation for BC Hydro's purpose and long-term goals. At its annual retreat in June 2005, the Board focused on supply and demand, a key issue with significant influence on the Corporation's ability to achieve its long-term goals. The purpose of this discussion was to set the context for future decision-making on strategic actions required to maintain system reliability.

In support of BC Hydro's 2006 Integrated Electricity Plan, the Board struck an ad hoc committee in January 2006 with the purpose of providing focused resources to review options arising from the Integrated Electricity Plan.

2006 STATEMENT OF CORPORATE GOVERNANCE PRACTICES

BOARD RENEWAL

During the past year a number of changes occurred on the Board, with one new appointment in June 2005, a resignation in August 2005 and two further resignations in February 2006. In January 2006 the Board's Corporate Governance Committee initiated a director search for qualified candidates in conjunction with the Board Resourcing Office's candidate selection and appointment process. The director search process is nearing conclusion and it is anticipated that two new Directors will join the Board in mid 2006.

BC Hydro's Board members have been appointed by government with no fixed term. As a result, a rotation plan was established last year to ensure a planned Board renewal process. The rotation plan establishes a maximum tenure of nine years, comprising three three-year terms, providing a means through mutual determination between Director and Board Chair as to whether an appointee steps down at one of the established milestones or continues until the maximum term expires.

BOARD ORIENTATION AND ONGOING EDUCATION

In addition to its quarterly tutorials and other business-specific educational sessions scheduled during the year, the Board formalized a policy for Director professional development in February 2006.

With Board renewal underway, a formalized orientation program was also developed for new Directors to assist new appointees with their introduction to the corporation.

ENVIRONMENTAL OVERSIGHT

The Board of Directors expects assurance that processes are in place respecting environmental compliance and that any deviation is identified in a timely way and reported to the Audit and Risk Management Committee, the board committee assigned with this responsibility.

Following last year's environmental briefing session during which Directors reviewed environmental management, current trends and triple-bottom-line decision making, it was decided that time would be set aside to consider environmental matters in more depth on an annual basis, and this has since been factored into the Board's meeting schedule.

CONTINUOUS IMPROVEMENT

Subscribing to the principle of continuous improvement, Board performance is evaluated annually to assure that the Board of Directors performs its due diligence and policy oversight role in the most effective manner.

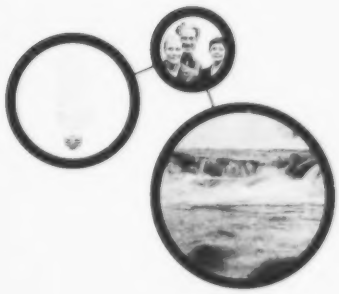
With the benefit of ongoing examination, awareness of best practices and benchmarking of other organizations, Directors are assured that BC Hydro's governance framework is appropriate. The Board also understands that while process and structure drive good governance, success is only assured when the appropriate behaviours, attitudes and leadership are demonstrated at all levels of the organization.

STATEMENT OF GOVERNANCE PRACTICES ACCOUNTABILITY FOR SUSTAINABILITY

The Vice-President of Sustainability is accountable for BC Hydro's external sustainability focus, while the Senior Vice-President, Distribution is accountable for enabling the implementation of sustainability within BC Hydro. Each Line of Business (LoB) is responsible for the direct implementation of sustainability through the LoB's sustainability groups. Reporting on environmental risk is met through the Quarterly Risk Report that is provided to the Risk Management Committee and the Audit and Risk Management Committee of the Board.

The Sustainability Leadership Team is a cross-LoB management team chaired by the Manager of Sustainability Strategy that meets monthly to identify areas and opportunities for implementing and integrating sustainability within BC Hydro. External inputs into BC Hydro's business decisions are obtained through a variety of First Nations and stakeholder engagement processes and their input is considered in our triple-bottom-line decision-making processes.

2006 STATEMENT OF CORPORATE GOVERNANCE PRACTICES



CORPORATE AUDIT PROGRAM

BC Hydro's audit framework incorporates Risk Based and Cyclical Audits, and Control Assessments to provide a comprehensive program to support stakeholders' assurance needs. These programs are updated on a regular basis with information received from benchmarking, risk assessments and other reporting and monitoring activities. Each year the members of BC Hydro's Audit and Risk Management Committee of the Board reviews the Internal Audit Plan and Audit Services Charter. It also reviews audit reports issued by Internal Audit, management's response and subsequent follow-up of identified weaknesses.

The Committee Chair also meets privately with the Director, Internal Audit in advance of the Committee meetings to discuss all items to be presented. Together this provides support for an effective control environment at BC Hydro across the three bottom lines.

The following table depicts the audits conducted in Fiscal 2006.

Risk (R) / Cyclical (C)	Audits Completed in Fiscal 2006	BUSINESS UNITS	SERVICE ORGANIZATION	POWEREX	PERFORMANCE MEASURE	ENVIRONMENTAL	IT	3rd PARTY ABSU & BCTC
R	ABSU IT						•	•
R	Commercial Performance – Performance Measure				•			
R/C	Corporate Audit Report	•			•			
R	Environmental Management System	•	•	•		•		
R	Field Services/Distribution Supply Chain	•	•					•
R/C	Generation Audit Report	•						
R	Generation Asset Management	•						
R	MMBU Purchasing	•						•
R	Percentage of Total Planned Work Completed – Performance Measure				•			
R	Powerex Regulatory Reporting			•				
R	Powerex Risk and Response Program			•			•	
C	Powerex Disbursement Controls			•				
C	Powerex Trade Processing Controls			•				
	TOTAL	6	2	5	3	1	2	3

2006 STATEMENT OF CORPORATE GOVERNANCE PRACTICES

BOARD OF DIRECTORS

Lawrence I. Bell, Chair

Stephen T. Bellringer

Wanda C. Costuros

Elmer P. Derrick

Brenda Eaton
(appointed June 1, 2005)

Kenneth J. Finch
(resigned February 14, 2006)

Alice D. Laberge
(resigned August 31, 2005)

Nancy D. Olewiler

Peter J. Powell
(resigned February 14, 2006)

Walter Saponja

Jack Weisgerber

Note: On May 31, 2006, BC Hydro began a reorganization of its business structure. As of the time of publication, the new structure had not been finalized. The new organizational structure will be included in our Fiscal 2007/08 – Fiscal 2009/10 Service Plan. Please consult the BC Hydro website for the most up-to-date information at http://www.bchydro.com/info/board_execs/board_execs12075.html

OFFICERS AND SENIOR MANAGEMENT

Lawrence I. Bell
Chair

Robert G. Elton
President and Chief Executive Officer

Dawn Farrell
Executive Vice-President, Generation

Raymond A. Aldeguer
Senior Vice-President, Corporate Resources and General Counsel

Bev Van Ruyven
Senior Vice-President, Distribution

Susan Yurkovich
Senior Vice-President, Corporate Affairs (appointed May 31, 2006)

Gary Rodford
Vice-President, Field Services
(effective April 1, 2005)

W. Bruce Sampson
Vice-President, Sustainability

Bruce Ripley
Vice-President, Engineering

Alister Cowan
Executive Vice-President, Finance and Chief Financial Officer

Nicola Webb
Chief Human Resources Officer (resigned May 31, 2006)

Cheryl Yaremko
Controller (effective January 3, 2006)

Myra E.M. Watson
Corporate Secretary

2006 STATEMENT OF CORPORATE GOVERNANCE PRACTICES

COMMITTEES OF THE BOARD OF DIRECTORS

EXECUTIVE

Lawrence I. Bell, Chair

Wanda Costuros
(appointed September 1, 2005)

Alice D. Laberge
(resigned August 31, 2005)

Jack Weisgerber

This Committee meets only in special circumstances. It has the full powers of the Board to act in situations when, for timing reasons, a Board meeting cannot be scheduled.

AUDIT AND RISK MANAGEMENT

Wanda C. Costuros, Chair

Brenda Eaton
(appointed June 12, 2005)

Alice D. Laberge
(resigned August 31, 2005)

Nancy D. Olewiler

Peter J. Powell
(resigned February 14, 2006)

Walter Saponja

This Committee assists the Board in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of corporate controls, governance of the Corporation's pension plans, and various facets of risk management.

CORPORATE GOVERNANCE

Nancy D. Olewiler, Chair
(resigned as Chair and member March 1, 2006)

Stephen T. Bellringer

Wanda C. Costuros

Elmer P. Derrick

Brenda Eaton, Chair
(appointed June 12, 2005; appointed Chair March 1, 2006)

This Committee assists the Board by ensuring that BC Hydro develops and implements an effective approach to corporate governance. This enables the business and affairs of the corporation to be carried out, directed and managed with the objective of enhancing shareholder value.

HUMAN RESOURCES

Nancy D. Olewiler, Chair
(appointed Chair and member March 1, 2006)

Stephen T. Bellringer
(resigned as Chair March 1, 2006 but remains a member)

Elmer P. Derrick

Jack Weisgerber

This Committee assists the Board in fulfilling its obligations relating to senior management, human resource, compensation and safety issues.

2006 STATEMENT OF CORPORATE GOVERNANCE PRACTICES

ADVISORY COMMITTEE – PEACE RIVER/WILLISTON RESERVOIR

Jack Weisgerber, Chair

Lori Lynn Ackerman, Fort St. John

Don Bourassa, Dawson Creek

Rick Hopkins, Fort St. John.

Gwen Johansson, Hudson's Hope

Bob McNabb, Chetwynd

Kevin Neary, Mackenzie

George Stedeford, Mackenzie

Leigh Summer, Hudson's Hope

Ron Terlesky, Mackenzie

Donny Van Somer, Kwadacha

The Board appoints Advisory Committees from time to time. This Advisory Committee provides advice and facilitates two-way communications between the Peace/Williston community and BC Hydro. The Chair is a Board member and Committee membership is composed of local community leaders, providing equitable representation from geographical and special interest groups within the region.

FOOTNOTES

Committees of the Board of Directors

Committees of the Board of Directors of BC Hydro are composed entirely of independent Directors.

The Peace River/Williston Reservoir Advisory Committee is composed of local community members and chaired by an independent member of the BC Hydro Board.

The Board of Directors of BC Hydro's wholly owned subsidiary, Powerex Corp., has also appointed an Audit and Risk Management Committee composed of independent Directors.

Board and Committee Meetings held from April 1, 2005 to March 31, 2006.

BC Hydro

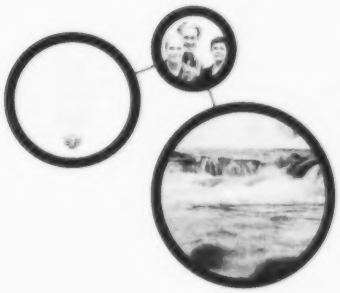
The number of Board and Committee meetings in Fiscal 2006 are set out in BC Hydro's corporate governance disclosure at: http://www.bchydro.com/policies/openness/openness26867.html.

Subsidiaries

Powerex Corp.
Quarterly and Special Board Meetings – 6
Audit and Risk Management Committee – 4

Powertech Labs Inc.
Regular Board Meetings – 6

2006 STATEMENT OF CORPORATE GOVERNANCE PRACTICES



POWEREX CORP.

BOARD OF DIRECTORS

Lawrence I. Bell, Chair

Wanda C. Costuros

Elmer P. Derrick

Brenda Eaton (appointed July 11, 2005)

Robert G. Elton

Robert A. Fairweather

Nancy D. Olewiler

Peter J. Powell

Walter Saponja

OFFICERS

Lawrence I. Bell
Chair

Teresa Conway
Chief Executive Officer

David Wong
Vice-President, Finance and Chief Financial Officer

Myra E.M. Watson
Secretary

AUDIT & RISK MANAGEMENT

Peter J. Powell, Chair

Lawrence I. Bell (ex officio)

Wanda C. Costuros

Elmer P. Derrick

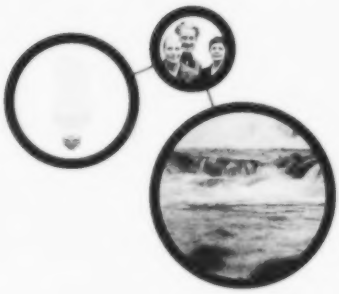
Brenda Eaton (appointed July 11, 2005)

Robert A. Fairweather

Nancy D. Olewiler

Walter Saponja

2006 STATEMENT OF CORPORATE GOVERNANCE PRACTICES



POWERTECH LABS INC.

BOARD OF DIRECTORS

Bev Van Ruyven, Chair
(appointed July 19, 2005)

Kenneth J. Finch,
Chair
(resigned as Chair and member May 26, 2005)

William A. Best

Prabha Kundur
(resigned November 4, 2005)

Bruce Ripley

W. Bruce Sampson

OFFICERS

Bev Van Ruyven, Chair
(appointed July 19, 2005)

Kenneth J. Finch,
Chair
(resigned as Chair and member May 26, 2005)

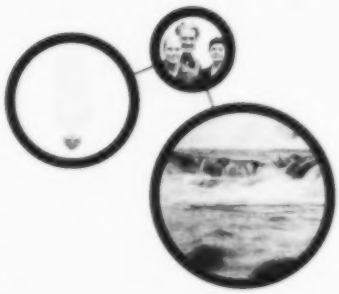
Prabha Kundur,
Chief Executive Officer

Richard Marchant,
Chief Operating Officer
(appointed December 5, 2005)

Peggy MacTavish,
Director, Business Services,
(resigned July 19, 2005)

Myra E.M. Watson,
Secretary

2006 STATEMENT OF CORPORATE GOVERNANCE PRACTICES



ALIGNMENT TO THE GOVERNMENT'S STRATEGIC PLAN

BC Hydro is aligned with government's Strategic Plan and Goals:

Government Goals	BC Hydro's Alignment
• To make B.C. the best educated, most literate jurisdiction on the continent. • To lead the way in North America in healthy living and physical fitness. • To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.	Providing significant revenues to government to fund priority services such as health care and education, through various means such as the dividend and water rentals. Supporting charities and community organizations, as well as scholarships through direct monetary contributions both corporately and from current and retired employee organizations.
• To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.	Operating with a long-term, triple-bottom-line business approach that values social, environmental and financial factors. Investing in clean energy sources to meet growing demand. Promoting energy conservation and efficiency programs.
• To create more jobs per capita than anywhere else in Canada.	Providing low-cost, reliable electricity to maintain and enhance competitiveness of B.C. industries and businesses. Involving independent power producers in order to diversify energy supply, generate economic wealth and create jobs. Promoting energy conservation and efficiency programs which will create employment opportunities as products and services are developed.

financial

financial

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2006

The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position for the year ended March 31, 2006 (fiscal 2006). This discussion should be read in conjunction with the consolidated financial statements of the company and related notes. This report contains forward-looking statements, including statements regarding the business and anticipated financial performance of BC Hydro. These statements are subject to a number of risks and uncertainties that may cause actual results to differ from those contemplated in the forward-looking statements.

For fiscal 2006, BC Hydro's results were impacted by increased customer load due to both higher levels of demand from new and existing customers, continued strong economic activity in the province and one-time accounting adjustments. Water inflows were higher than the prior year's (although two per cent lower than average) which allowed more low-cost hydro generation and resulted in a lower volume of market energy purchases as compared to the prior year. The primary reasons for the increase in cost of energy were significantly higher transmission charges and higher cost per megawatt hour (MWh) of energy purchases.

HIGHLIGHTS

- Net income for the year ended March 31, 2006 was $266 million, a decrease of $136 million from the prior year. This resulted in a return on equity of 9.26 per cent compared to 14.24 per cent for fiscal 2005.
- Energy supplied to domestic customers increased by two per cent (1,235 GWh) to 52,440 GWh, however, margin from domestic sales decreased by $40 million due to a higher average cost per MWh supplied.
- Property, plant and equipment expenditures are 15 per cent higher ($78 million) at $607 million than the prior year primarily due to an increase in spending to improve substation equipment, seismic upgrades, stator replacements and refurbishment, higher volumes of new customer construction and information technology upgrades.
- The results reflect the impact of Accounting Guideline 19, Disclosures by Entities Subject to Rate Regulation (AcG 19), regarding the recognition and measurement of assets and liabilities subject to rate regulation.

(dollar amounts in millions)	2006	2005	Change
Total Assets	$ 12,704	$ 12,363	$ 341
Retained earnings	$ 1,707	$ 1,688	$ 19
Net Income	$ 266	$ 402	$ (136)
Payment to the Province	$ 223	$ 339	$ (116)
Return on Equity[1]	9.26%	14.24%	(4.98)%
Debt to Equity[1]	70:30	70:30	–
Number of Domestic Customers	1,704,671	1,675,055	29,616
GWh Sold (Domestic)	52,440	51,205	1,235
Property, Plant and Equipment expenditures	$ 607	$ 529	$ 78

[1] *Based on equity as defined for regulatory purposes*

FOR THE YEAR ENDED MARCH 31, 2006

Income before regulatory accounts of $25 million for the year ended March 31, 2006 compares with $315 million in the previous year. The primary reasons for the decrease in income before regulatory accounts are the payment of the arbitration award from Alcan Inc. (Alcan) of $137 million in fiscal 2005, an $88 million provision for First Nation settlements, an increase in finance charges of $117 million, offset by higher gross margin on sales of $57 million primarily the result of energy trading activities.

Net income, after regulatory account transfers, was $266 million for the year ended March 31, 2006 compared with $402 million in the previous year. BC Hydro's net income was significantly reduced from fiscal 2005 due mainly to the one-time arbitration payment received from Alcan in fiscal 2005 (impact to net income after regulatory account transfers was $62 million), increased cost of energy, and the write-off of certain assets at the Burrard Thermal Generating Station.

BC Hydro completed the transfer of responsibility for management of its transmission system assets to the British Columbia Transmission Corporation (BCTC), a Crown corporation of the Province, effective April 1, 2005. The consolidated financial statements of BC Hydro include the accounts of BCTC for the year ended March 31, 2005. BC Hydro has removed BCTC from its consolidated accounts effective April 1, 2005 when BCTC was considered operationally and financially independent of BC Hydro. As a result, certain expenses of BCTC appear in different expense categories in fiscal 2006 than in fiscal 2005. The largest component of this relates to transmission costs which are included in operating costs for fiscal 2005 and in the cost of energy for fiscal 2006, a key factor in the increase in cost of energy.

The results for years ended March 31, 2006 and 2005 reflect changes resulting from the adoption of AcG19. AcG19 addresses the disclosure of assets and liabilities subject to rate regulation. This has resulted in a change in disclosure for demand-side management programs, First Nations negotiations, litigation and settlement costs and foreign exchange gains and losses on translation of long-term foreign denominated monetary items. All changes to regulatory account balances and the related amortization are isolated within one line item referred to as "Net change in regulatory accounts." This amount is disclosed below Operating Income on the Statement of Operations.

In addition, regulatory accounting has ceased for regulatory accounts that do not have a regulatory order in place. As a result, the unamortized balance of dam safety and site survey investigation costs, deferred debt issue and refinancing costs and unitized bond fund gains and losses, were written off in fiscal 2006. Future rate relief will not be requested for these items. The net impact of this write-off was an $11 million reduction to net income.

Revenues

	In millions		In gigawatt hours	
	2006	2005	2006	2005
Domestic:				
Residential	$ 1,046	$ 1,016	16,261	15,814
Light industrial and commercial	989	967	17,913	17,459
Large industrial	584	573	16,428	16,177
Other energy sales	146	148	1,838	1,755
	$ 2,765	$ 2,704	52,440	51,205
Trade:				
Electricity	$ 1,043	$ 866	29,906	29,706
Gas	503	155	6,641	2,640
	$ 1,546	$ 1,021	36,547	32,346
Total	$ 4,311	$ 3,725	88,987	83,551

Total revenues for the year of $4,311 million increased by 16 per cent over fiscal 2005 generally a result of continued strong customer demand for electricity in all customer sectors and increased trade revenue. Volumes in 2006 of 88,987 GWh were six per cent higher than the 83,551 GWh sold during the same period last year.

Domestic Revenues

Total domestic revenues of $2,765 million for the year ended March 31, 2006 were $61 million or two percent higher than the previous year. The main factor behind this increase is the net growth of approximately two per cent in gigawatt hours sold in the domestic market. Average sales prices were similar to last year, as there was no rate increase for customers in fiscal 2006. There was a three per cent increase in residential consumption partly due to temperatures averaging one and a half per cent cooler than the prior year and the addition of 27,096 new customers during the year. Consumption in the large industrial and the light industrial and commercial sectors increased by two per cent as activity levels reflected the continued strong economic conditions in the province.

Trade Revenues

BC Hydro's electricity system is interconnected with systems in Alberta and the western United States. Interconnection facilitates sales and purchases of electricity outside of British Columbia. Energy trade activities are carried out by Powerex, a wholly owned subsidiary of BC Hydro. Trade activities help BC Hydro balance its system by being able to import energy to meet domestic demand when there is a supply shortage in the system due to such factors as low water inflows. Exports are made only after ensuring domestic demand requirements can be met.

Total trade revenues for the year ended March 31, 2006 were $1,546 million, an increase of 51 per cent compared to $1,021 million in the prior year. Sales volumes increased by 13 per cent to 36,547 GWh in the current year from 32,346 GWh in the prior year with the major portion of the increase, 4,001 GWh, being from gas trading activities. The volume of electricity traded during the year was 29,906 GWh, a marginal increase over the 29,706 GWh in fiscal 2005. However, average sales prices for electricity were 26 per cent higher than the prior year at a gross price of $79/MWh (2005 – $63/MWh). The volume of gas sales significantly increased to 6,641 GWh during the year from 2,640 in the prior period due to greater trading activity levels in that commodity sector. In addition, the average sales price for gas was 29 per cent higher than fiscal 2005 at a gross price of $76/MWh (2005 – $59/MWh).

The increase in electricity market prices was primarily the result of adverse weather conditions and higher gas prices. Gas prices were driven by increasing crude oil prices and a reduction in U.S. crude oil and natural gas production capability after Hurricane Katrina.

Energy Costs

Energy costs are influenced primarily by the volume of energy consumed and the mix of sources of supply. The mix of sources of supply is influenced by variables such as the market price of energy, water inflows, reservoir levels, energy demand and environmental and social impacts.

Energy costs are comprised of the following sources of supply:

	($ in millions)		(gigawatt hours)		($per MWh)	
	2006	2005	2006	2005	2006	2005
Hydro generation	$ 272	$ 233	46,219	41,163	$ 5.81	$ 5.69
Purchases from Independent Power Producers and other long-term contracts	449	394	6,741	6,444	66.61	61.14
Other electricity purchases – Domestic	343	396	5,853	6,897	58.60	57.42
Gas for thermal generation	53	70	375	781	141.33	89.63
Transmission charges and other expenses	79	2	71	96	–	–
Total Domestic	$ 1,196	$ 1,095	59,259	55,381	$ 20.18	$ 19.77
Other electricity purchases – Trade[1]	$ 573	$ 544	28,405[2]	30,190	$ 65.48	$ 51.37
Remarketed gas	494	160	6,912	2,873	71.47	55.69
Transmission charges and other expenses	225	160	–	–	–	–
Total Trade	$ 1,292	$ 864	35,317	33,063	$ 73.02	$ 56.59
Total Energy Costs	$ 2,488	$ 1,959	94,576	88,444	$ 39.91[3]	$ 33.53[3]

[1] *Other electricity purchases in dollars includes purchases for trade activities shown net of derivatives. Gigawatt hours and $ per MWh are shown at gross cost.*

[2] *Trade cost of energy volumes do not equal trade revenue volumes due to the return of prior years' energy to Powerex. The difference is included in domestic cost of energy volumes.*

[3] *Total cost per MWh includes other electricity purchases at gross cost.*

For the year ended March 31, 2006 total energy costs of $2,488 million were $529 million or 27 per cent higher than the previous year. The increase is a result of the increased volume and cost of gas for trade, transmission charges, purchases from Independent Power Producers partially offset by a reduction in other electricity purchases. Total volume of energy supplied was 94,576 GWh, seven per cent more than the prior year, and average purchase price increased by 19 per cent to $39.91/MWh. Domestic energy costs were $101 million higher compared with fiscal 2005, an increase of nine per cent. The change is a result of the seven per cent increase in volume required to supply customer load, including line losses and system use, at a two per cent higher average cost of $20.18/MWh. Domestic consumption was met by increased low cost hydro generation compared to the prior year, although at a two per cent higher average price of $5.81/MWh. This resulted in lower energy purchases although at higher per MWh prices ($58.60/MWh). Domestic energy cost was also impacted by transmission charges, which were included in the prior year as an operating cost.

Trade energy costs increased by $428 million, or 49 per cent, primarily as a result of the higher average cost of electricity and gas purchases, significantly greater volume of gas purchases and higher transmission charges. Electricity purchases, at 28,405 GWh, were six per cent lower than prior year's levels at 27 per cent higher average prices. The difference between the electricity trade sales volumes and electricity trade purchase volumes of 1,501 GWh is because Powerex purchased energy back from BC Hydro in the current fiscal year that BC Hydro had purchased from Powerex in previous fiscal years. The volume of gas purchased for sale to third parties increased significantly from 2,873 GWh to 6,912 GWh for the current year and average gas prices were 28 per cent higher than last year's levels at $71.47/MWh.

Water inflows into BC Hydro's reservoirs were two per cent higher during the year ended March 31, 2006 compared to the prior year. This resulted in an increase in the volume of low-cost hydro generation, one factor influencing the level of electricity imports. The decision to import energy instead of utilizing hydro generation is based on many factors, such as the forecast market price of energy in future periods relative to the current period, current reservoir levels and future demand requirements. Operating constraints related to legal and regulatory obligations such as minimum reservoir levels and stream flow requirements also affect the decision to import energy.

With higher inflows, reservoirs have been managed such that the combined storage in BC Hydro reservoirs at March 31, 2006, was 124 per cent of average compared with 121 per cent of average at March 31, 2005 (average storage levels relate to the average from 1986 to 2005), with the Williston Reservoir on the Peace River system at 128 per cent of average (2005 – 120 per cent) and the Kinbasket Reservoir on the Columbia River system at 115 per cent of average (2005 – 112 per cent).

During the year, BC Hydro decided to purchase more electricity and build up its reservoir levels as it forecasts fiscal 2007 to be a low water year and believes that current prices are lower than will be experienced in the near future. Fiscal 2005 was a very low water year and as a result electricity purchases were also comparatively high in that year.

Operations costs

Total operations costs for the year ended March 31, 2006 were $80 million higher than the previous year. The increase was primarily due to an increase of $19 million in demand-side management program expenditures compared to the prior year and a First Nation settlement provision of $88 million, offset by the reclassification of certain transmission charges of $33 million to cost of energy.

Maintenance costs

Total maintenance costs for the year ended March 31, 2006 were $21 million higher than the previous year. The increase was primarily due to $16 million for maintenance expenses paid to BCTC and $7 million for vegetation programs due to Pine Beetle infestation.

General and administrative costs

Total general and administrative costs were $13 million lower for year ended March 31, 2006 compared to the prior year. The reduction is primarily a combination of lower legal and environmental provisions compared to fiscal 2005 of $16 million, and $21 million resulting from the reallocation of transmission related costs to cost of energy offset by timing issues and reduced project costs.

CONSOLIDATED RESULTS OF OPERATIONS

Amortization Expense

Amortization expense for the year ended March 31, 2006 was $1 million higher than the previous year. This increase is primarily the result of the write-down of certain assets at the Burrard Thermal Generating Station of $23 million offset by the removal of $18 million in amortization related to BCTC assets that were included in fiscal 2005 prior to the removal of BCTC from BC Hydro's financial accounts.

Finance Charges

Finance charges for the year ended March 31, 2006 were $117 million higher than the previous year. This was primarily a result of the year over year change in foreign exchange on translation of certain U.S. dollar denominated debt issue and related costs. A gain of $121 million was recorded in fiscal 2005 compared to a $4 million loss in the current year. This amount is transferred to a regulatory account and does not impact net income. The remaining variance was the result of lower average volume of debt ($11 million) and a generally stronger Canadian dollar ($4 million) offset by higher U.S. short-term interest rates on debt refinancing ($10 million) and lower U.S. dollar sinking fund income ($6 million).

Return on Equity and Payment to the Province

(dollar amounts in millions)	2006	2005
Actual return on equity [1]	9.26%	14.24%
Allowed return on equity	13.51% [2]	13.91% [2]
Payment to the Province	$ 223	$ 339

[1] *Based on equity as defined for regulatory purposes.*

[2] *BC Hydro's allowed rate of return was approved by the Commission in its rate decision of October 29, 2004. The allowed return on equity has been calculated to equal, on a pre-income tax basis, that of the most comparable investor-owned utility.*

BC Hydro is required to make an annual Payment to the Province equal to 85 per cent of its distributable surplus.

Payment from Alcan Inc.

In December 2004, Alcan paid Powerex US$110.4 million (Cdn$137 million) representing an arbitration award of US$100 million plus interest related to Alcan's payment obligation under a Power Purchase and Sale Agreement between Powerex and Enron Power Marketing, Inc.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operating activities for the year ended March 31, 2006 was $637 million, compared with $589 million for the prior year. The primary reason that cash flow provided by operating activities increased in fiscal 2006 is working capital changes due to settlement of accounts receivable and payable transactions.

BC Hydro is subject to an overall borrowing limit of $8,800 million, net of sinking funds. At March 31, 2006 BC Hydro had an unused borrowing capacity totalling $2,150 million. During fiscal 2006, BC Hydro issued $400 million of new bonds and increased revolving borrowing by $188 million. The funds from these issues, cash flows from operations and sinking funds were used to redeem $616 million of bonds, fund the Payment to the Province and fund property, plant and equipment expenditures. Long-term debt, net of sinking funds and cash and cash equivalents, was $6,627 million at March 31, 2006, compared to $6,583 million as at the end of the prior year.

Property, plant and equipment expenditures were as follows:

(in millions)	2006	2005	Increase (Decrease)
Generation replacements and expansion	$ 130	$ 107	$ 23
Transmission lines and substation replacements and expansion	161	132	29
Distribution improvements and expansion	249	233	16
General – including computers and vehicles	70	56	14
Change in working capital related to capital asset expenditures[1]	(3)	1	(4)
Total property, plant and equipment expenditures per Consolidated Statement of Cash Flows	$ 607	$ 529	$ 78

[1] *Adjustment from accrual to cash expenditures on the Consolidated Statement of Cash Flows.*

For the year ended March 31, 2006, the increase in generation replacements and expansion is due to work on seismic upgrades and stator replacements and refurbishment. The increase in transmission expenditures is due to construction of five new substations to meet customer load growth. The increase in distribution improvements and expansion is due to a higher volume of customer construction and connections and increased system growth improvement work.

Expenditures on demand-side management programs (Power Smart) were $90 million in fiscal 2006 as compared to $71 million in the prior year. The increase is due to the timing of incentive payments based on customer driven project schedules.

MARK-TO-MARKET GAINS AND LOSSES

BC Hydro uses mark-to-market accounting on its contracted commitments for foreign exchange transactions and Powerex trading transactions that do not qualify for hedge accounting. Mark-to-market gains are recorded as assets and losses are recorded as liabilities on the balance sheet. As at March 31, 2006, BC Hydro recorded a net loss of $24 million ($277 million gain less $301 million loss) compared to $2 million gain in last year from mark-to-market transactions.

COLLECTIVE AGREEMENT RENEWALS

On March 27, 2006, BC Hydro and the International Brotherhood of Electrical Workers (IBEW) Local 258 ratified a Memorandum of Agreement to renew their collective agreement. This agreement was effective April 1, 2006 and expires on March 31, 2010. In addition, the Canadian Office & Professional Employees (COPE) Local 378 renewed its collective agreement with BC Hydro on March 17, 2006. The agreement is effective April 1, 2006 and expires March 31, 2010. In conjunction with signing these agreements, the Province provided an incentive payment to employees to encourage an early settlement and a longer term agreement. The Province paid for the incentive and, as a result BC Hydro did not record a cost in respect of these payments.

ABORIGINAL RELATIONS AND NEGOTIATIONS

During the year, BC Hydro recorded a provision for future negotiation and settlement costs. BC Hydro was granted a regulatory order dated May 18, 2006 by the Commission for approval of a designated regulatory account with respect to these costs and will seek to recover these amounts in future rates when amounts are actually incurred.

COMPARISON WITH SERVICE PLAN

Each year, BC Hydro's Service Plan is prepared for presentation to the British Columbia Legislature under the Budget Transparency and Accountability Act. The plan outlines BC Hydro's goals, objectives and key strategies, along with the results it expects to achieve for the following three-year period.

In BC Hydro's September 2005 updated Service Plan, fiscal 2006 net income was forecast to be $376 million.

Actual income before regulatory account transfers for the year ended March 31, 2006 was $25 million which was $195 million below the September 2005 Service Plan of $220 million (as restated for changes in disclosure of regulatory transfers). This is mainly due to the net impact of increased customer load ($152 million) resulting from higher domestic energy costs driven by higher market energy purchase volumes and higher market energy prices.

Operating costs increased ($102 million) from the September 2005 updated Service Plan mainly due to the First Nation future negotiation and settlement accrual and vegetation maintenance costs due to Mountain Pine Beetle, offset by demand side management program expenditures. Amortization was also higher ($22 million) as a result of the one-time write-off of certain assets of the Burrard Thermal Generating Station.

The impact to net income of these variances is partially transferred to regulatory accounts. As a result, the actual net income of $266 million was $110 million less than the September 2005 updated Service Plan forecast.

FOR THE YEAR ENDED MARCH 31, 2006

The table below provides an overview of BC Hydro's financial performance relative to its 2005 to 2008 Service Plan Update (September 2005). These results and forcasts from the basis upon which key performance targets are set.

	Actual			Forecast		
	2004	2005	2006	2006	2007	2008
Revenues						
Domestic						
Residential	$ 960	$ 1,016	$ 1,046	$ 1,036	$ 1,055	$ 1,074
Light Industrial and Commercial	912	967	989	994	1,003	1,010
Large Industrial	525	573	584	555	546	540
Other energy sales	89	88	91	89	89	92
Miscellaneous	67	60	55	49	48	47
	2,553	2,704	2,765	2,723	2,741	2,763
Electricity trade	871	1,021	1,546	1,121	1,119	1,139
	3,424	3,725	4,311	3,844	3,860	3,902
Expenses						
Energy costs	1,580	1,959	2,488	1,917	1,882	1,928
Operating costs	622	717	805	566	566	566
Taxes	147	143	147	152	155	156
Amortization	525	410	411	433	457	489
	2,874	3,229	3,851	3,068	3,060	3,139
Income Before the Following Items:	550	496	460	776	800	763
Finance charges	(452)	(318)	(435)	(447)	(467)	(507)
Restructuring costs	(8)	–	–	–	–	–
Payment from Alcan Inc.	–	137	–	–	–	–
Net Income Before Regulatory Account Transfers	90	315	25	329	333	256
Net change in regulatory amounts	21	87	241	47	19	18
Net Income	$ 111	$ 402	$ 266	$ 376	$ 352	$ 274

Note: Fiscal 2005 and 2006 results reflect the impact of AcG19. Fiscal 2004 and forecast years fiscal 2006 to 2008 have not been restated.

Regulatory Accounting

BC Hydro applies various accounting policies that differ from Canadian generally accepted accounting principles for enterprises that do not operate in a rate-regulated environment. Generally, these policies result in deferral and amortization of certain costs and recoveries to allow for adjustment of future rates. In the absence of rate regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. These accounting policies support BC Hydro's regulations and have been established through ongoing application and approval of the Commission.

CHANGES IN ACCOUNTING POLICY

During fiscal 2006, BC Hydro implemented the following accounting policy changes:

Disclosure by Entities Subject to Rate Regulation

In May 2005, the Canadian Institute of Chartered Accountants (CICA) issued AcG 19, Disclosures by Entities subject to Rate Regulation. AcG 19 requires certain aspects of disclosure and presentation of information in the financial statements of entities providing services or products for which customer rates are established, or subject to approval, by a regulator. AcG 19 is effective for fiscal years ending on or after December 31, 2005. BC Hydro's consolidated financial statements and supporting notes reflect the requirements of AcG 19.

REGULATION UPDATES

Rate Hearings

In regulating and setting rates for BC Hydro, the Commission must ensure that the rates are sufficient to allow BC Hydro to provide reliable electricity service, meet its financial obligations, comply with government policy and achieve an annual rate of return on equity based on forecast consolidated net income. The annual rate of return on equity is equal to the pre-income tax annual rate of return allowed by the Commission to the most comparable investor-owned energy utility regulated under the Utilities Commission Act. The allowed annual rate of return on equity calculated for fiscal 2006 was 13.51 per cent (2005 – 13.91 per cent). The actual rate of return in 2006 was 9.26 per cent.

On May 25, 2006, BC Hydro submitted its Revenue Requirements Application to the Commission that proposed rate increases of 4.65 per cent in fiscal 2007 and 2.71 per cent in fiscal 2008.

In its Revenue Requirements Application, BC Hydro is seeking an interim increase in its rates effective July 1, 2006 and setting of permanent rates for fiscal 2007 and 2008 following the review of the application. A full public hearing related to the Revenue Requirements Application is expected to occur in the third quarter of fiscal 2007 and a final decision is expected during the fourth quarter of fiscal 2007.

BCTC Transition Deferral Accounts

Under a Special Directive issued by the Province, variances that arise between the costs of transmission services included in BC Hydro's rates and BCTC's rates are deferred. The amortization of balances will be subject to Commission approval. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred.

First Nation Negotiations, Litigation and Settlement Costs

Costs related to First Nation negotiations, litigation and settlements are deferred under two separate regulatory orders. One order allows the deferral of costs recorded as a provision for future negotiation and settlement costs that have not yet been incurred. Amounts included in this account represent legal contingencies based on management's best estimates of the potential loss exposure.

Under a separate regulatory order, costs related to First Nation negotiations, litigation and settlements that have been paid are deferred and amortized on a straight line basis over a period of 10 years.

In the absence of rate regulation, these costs would be substantially treated as period costs, and expensed in the year in which they are provided for or incurred.

VANCOUVER ISLAND GENERATION

On June 17, 2005, BC Hydro announced the termination of the energy purchase agreement with Duke Point Power Limited Partnership who had been selected to provide a new source of energy supply on Vancouver Island from a gas-fired combined cycle plant to be located near Nanaimo. The project had been repeatedly delayed through various court appeals, resulting in management's assessment that the risks around timely completion of the project were too great to ensure the reliability of future electricity supply. BC Hydro is currently assessing various alternative sources of supply for Vancouver Island.

POWEREX LEGAL PROCEEDINGS

At March 31, 2006, Powerex was owed US$268 million (Cdn$313 million) by the markets operated by the California Power Exchange (Cal Px) and the California Independent System Operator (Cal ISO) related to Powerex's electricity trade activities in California during fiscal 2001. As a result of payment defaults by a number of California utilities in 2001, the Cal Px and Cal ISO were unable to pay these amounts to Powerex. In addition, certain California parties requested the Federal Energy Regulatory Commission (FERC) consider whether refunds should be made to the Cal Px, the Cal ISO and the California Department of Water Resources by various suppliers, including Powerex. The FERC is calculating the extent to which sellers' receivables may be offset by refunds to the Cal Px and Cal ISO markets, while FERC's refund orders themselves are before U.S. appellate courts.

Since 2000, Powerex has been named, in some cases along with other energy providers, as a defendant in a number of lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescission based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and that the energy prices were not just and reasonable. Collectively, these proceedings are in various stages. A number of issues and findings are presently on appeal. Certain issues have been ordered by the U.S. Court of Appeals for the Ninth Circuit to be remanded to the FERC for further proceedings, but the court's remand order is subject to pending rehearing applications and remands have not yet occurred.

Due to the ongoing nature and uncertain status of the regulatory and legal proceedings related to the California power markets, management cannot predict at this time the outcome of the claims against Powerex and BC Hydro. BC Hydro has recorded provisions for uncollectible amounts and legal costs associated with the ongoing legal and regulatory impacts of the California energy crisis during fiscal 2001. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that may ultimately be collected may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the collection process.

POWEREX U.S. EXPORT PERMIT

In November 2005, the U.S. Department of Energy renewed Powerex's export permit enabling the export of electricity from the U.S. to Canada. The permit was renewed for a five-year period giving Powerex greater certainty in its future trade activities with the U.S.

RISK MANAGEMENT

BC Hydro faces risks specific to its business that could significantly impact its ability to achieve its short- and long-term goals. While risks cannot be eliminated, BC Hydro's strategies aim to minimize or mitigate them with a specific risk management process that is applied to day-to-day business activities as well as to specific projects and initiatives. BC Hydro's Chief Risk Officer is responsible for overseeing risk management activities of the company, and ensuring strong oversight by the Risk Management Committee. BC Hydro's Board of Directors also plays a key role in the risk management process as they must understand the risks being taken by BC Hydro and ensure they are appropriately managed.

The key risks BC Hydro faces are divided into five categories: employee and public safety; reliability; financial performance; organizational risk; and environmental and social performance.

Employee and Public Safety

Safety risks to the public can occur due to the multiple uses of water for electricity generation, recreation and waterways. Risks can also result from potential contact with transmission and distribution equipment located in communities. To minimize the risk, BC Hydro relies on design, construction and operating standards and practices, consultation with other agencies and stakeholder groups, and public education.

The potential impacts to BC Hydro's generation facilities as a result of catastrophic weather events and earthquakes are managed to minimize risk to public safety. BC Hydro also prepares and keeps current comprehensive emergency response plans to limit injury and loss of life and to restore electric service.

Many of BC Hydro's employees face significant risk of serious injury or death by the nature of their jobs. BC Hydro's work safety plans include employee involvement, communication, training, additional resources, policy clarification and simplification and increased manager time in the field.

Reliability

The most significant risk to the reliability of BC Hydro's system is the impact of weather, including storms and major events such as forest fires. With BC Hydro's large service territory there is significant exposure to trees, terrain and diverse weather patterns. BC Hydro mitigates the likelihood and consequence of such impacts through effective design, construction, operations, maintenance and response. BC Hydro manages these risks by balancing customers' expectations and cost considerations. Reliability risks can also result from a lack of available generation supply and associated transmission capacity to meet customer demand. BC Hydro manages these risks through long-term planning, asset maintenance programs, reliance on a diverse supply of energy options, and through cooperative support arrangements with neighbouring utilities.

BC Hydro must meet government permitting requirements to operate its facilities and build new infrastructure, which can have an impact on project lead times. For example, a typical IPP project could take between two to five years to reach commercial operation, while a large hydro-electric project could take 10 years in comparison. Delays in obtaining appropriate permits and consent could adversely impact reliability.

Financial Performance

In meeting its financial performance targets, BC Hydro faces risk related to energy costs, energy demand, interest and foreign exchange rates, pension obligations, and trading. Of these, risks associated with energy costs – specifically water inflows and energy market prices – are the most critical.

Increasing costs due to aging infrastructure, the need for new supply and the need to manage environmental impacts create challenges for BC Hydro in maintaining the low electricity cost advantage the province enjoys. How BC Hydro manages trade-offs between these competing objectives will be important to its financial performance and its ability to make the required infrastructure investment. External long term costs of environmental and social impacts need to be factored into decision-making today to ensure the right business decisions are made for the long-term.

RISK MANAGEMENT

Energy Cost

Energy cost risk, or commodity risk as it is often referred to, is the most significant financial risk to BC Hydro. It can result when BC Hydro is required to purchase electricity from the markets due to increased electricity demand in B.C. or lower-than-expected water levels. It can also result from changing market prices for electricity and natural gas. Over the past five years, BC Hydro has experienced below average water inflows and has increasingly relied on volatile energy trading markets. BC Hydro manages energy cost risk through its flexible hydroelectric system, which allows water to be stored in large reservoirs and used when it is most economic. BC Hydro also hedges the cost of imported electricity and natural gas.

Energy Demand

Energy demand is increasing as B.C.'s population increases and its economy grows. However, this demand increase can be volatile particularly from larger customers whose consumption is driven by export markets and world commodity prices. BC Hydro typically acquires this energy through market purchases and at market prices. BC Hydro is fully exposed to price risk on all customer demand in excess of its planned load, as customer rates are based on average costs (including heritage energy costs), which are significantly below the price of market purchases.

Interest Rates and Foreign Exchange Rates

Changes in interest and foreign exchange rates can significantly impact BC Hydro's finance charges. BC Hydro uses debt-management strategies to minimize the impact, including limiting the allowable percentage range of variable interest rate debt, and closely monitoring settlement and counterparty credit risks associated with both derivative and foreign exchange currency agreements. Interest and foreign exchange rate changes can also influence the performance and cost of BC Hydro's employee benefit and pension plans.

At March 31, 2006, $2,444 million or 36.1 per cent of net debt was subject to interest rate reset within the next fiscal year. Interest rate risk is managed through Board approved policies, which require the debt portfolio to be managed using an appropriate blend of fixed and floating rate debt, as well as by managing the term to maturity of its debt portfolio to manage exposure to interest rate movements in the future. BC Hydro utilizes financial instruments, including interest rate swaps and options, to adjust the balance of fixed and floating rate debt, and to reduce its overall cost of borrowing.

BC Hydro is exposed to exchange rate risk through the cost of U.S. dollar electricity purchases, gains from U.S. trading activity and U.S. dollar capital equipment purchases. To minimize the impact, BC Hydro manages its net foreign exchange position within strict limits. Both foreign exchange and interest rate risk are monitored and reported on a monthly basis.

Energy Trading

BC Hydro's energy trading subsidiary (Powerex) is exposed to the risk of variable market prices and counterparties who might not meet their obligations. Powerex manages these risks by operating through defined limits that are regularly reviewed by both the Powerex and BC Hydro Boards of Directors. Powerex primarily focuses on near- to mid-term (up to 18 months) trading positions, backing forward commitments with physical supply, and operating within Board approved market and credit limits. Longer-term positions are reviewed in the context of the overall energy trading portfolio.

Powerex is exposed to the risk of litigation, such as the potential liabilities from the California power crisis. Powerex follows Standards of Conduct and the Electric Power Supply Association's Code of Ethics and Sound Trading Practices to guide its trading activities.

RISK MANAGEMENT

Regulatory Risk

BC Hydro is permitted to earn an allowed return on equity. Tariff rates are set based upon BC Hydro's cost and equity forecast. In general, the risk (difference between forecast and actual) associated with uncontrollable costs is covered through regulatory deferral accounts. The major cost components susceptible to variation included in the regulatory deferral accounts are water inflows, energy prices including thermal fuel costs, major unplanned capital costs and trade income. BC Hydro's risk includes those associated with capital assets, domestic load volumes and prices, maintenance costs, operations and administration costs, and debt related costs.

Organizational Risk

An aging population is changing the dynamics for attracting skilled people at the same time many employees are retiring or are eligible to retire. In BC Hydro, an increasing number of employees are becoming eligible for retirement; and during the past year there was a significant increase in the rate of retirement uptake, resulting in fewer employees opting to remain working after their first eligible retirement date. Furthermore, short-term economic growth is outstripping resource capacity with a consequent pressure on labour availability and cost. This shortage of capable labour and the potential loss of institutional knowledge poses a risk to BC Hydro's ability to deliver on projects and capital plans. To attract and retain employees, BC Hydro is striving to ensure a safe workplace and create a culture that values people and performance and works collaboratively as one team for the benefit of all stakeholders.

Environmental and Social Performance

BC Hydro's environmental responsibility policy states that BC Hydro will meet or exceed environmental regulations defined by legislation, regulation, government directives and guidelines, as well as its commitments and agreements. Even if there is no environmental or social regulation, BC Hydro can face risks. These risks are managed through voluntary activities, such as the Water Use Plans. Voluntary action is taken with a view to managing long-term risk and for cost controls.

Areas where BC Hydro is exposed to the risk of non-compliance with environmental regulations include the release of hazardous materials into the environment, endangerment of wildlife and their habitats, or damage to heritage sites where there is evidence of historic human occupation. These risks are managed through environmental management systems and risk mitigation strategies.

The Kyoto Protocol became legally binding on February 16, 2005. Some BC Hydro thermal generating facilities will likely be covered by legislation under the Canadian Environmental Protection Act regulating greenhouse gas (GHG) emissions. Thermal generation typically supplies less than five per cent of electricity generated at BC Hydro facilities. BC Hydro's comprehensive approach to avoiding GHG risk, including energy efficiency and conservation programs to avoid new generation, a province-wide goal of acquiring 50 per cent of new generation supply from BC Clean sources and incorporating mechanisms to contractually insulate customers and the Province from future GHG regulatory costs that could impact IPPs will enable BC Hydro to be minimally affected by GHG regulation.

BC Hydro's Board approved a corporate social responsibility policy in May 2004. The organization is building practices in this area to manage emerging risks associated with suppliers, employees, stakeholders and First Nations.

First Nations past grievances, land claims, service reliability and regulatory processes pose risks to BC Hydro. BC Hydro manages these risks through a comprehensive Aboriginal Relations program. The long-term goal of further building business relationships with First Nations is intended to go beyond addressing the impact of BC Hydro facilities on First Nations and reducing the associated financial, legal and operating risks, to having a more proactive, mutually beneficial approach to working together.

BC Hydro's Service Plan is required to be filed in February of each year under the Budget Transparency and Accountability Act. BC Hydro's February 2006 Service Plan indicates that income before regulatory deferral account transfers for fiscal 2007 is expected to be $6 million (after restatement for the change in regulatory disclosure) and net income is expected to be $50 million. The Service Plan does not include the rate increases applied for in the company's recently filed Revenue Requirements Application.

BC Hydro's earnings can fluctuate significantly due to various non-controllable factors such as the level of water inflows, market prices for electricity and natural gas, weather temperatures, interest rates and foreign exchange rates. The February 2006 forecast for fiscal 2007 assumes a customer load increase of 1.7 per cent, total system water inflows of 90 per cent of normal, average market electricity purchase prices of US$66/MWh, short term interest rates of 4.3 per cent and a U.S. dollar exchange rate of US$0.86.

Forecast updates as of May 2006 indicates forecast total system water inflows increased to 93 per cent of normal and average energy prices decreased to US$51/MWh for fiscal 2007. As a result, cost of energy for domestic load is expected to decrease by $183 million. The forecast update also includes the applied for rate increase in fiscal 2007 as part of BC Hydro's Revenue Requirements Application filed in May 2006. As a result, income before regulatory transfers is now forecast to be $282 million and net income is forecast to be $395 million.

EARNINGS SENSITIVITY

The following table shows the effect on earnings of changes in some key variables. The analysis is based on business conditions and production volumes forecast for fiscal 2007. Each separate item in the sensitivity assumes the others are held constant. While these sensitivities are applicable to the period and magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances or greater magnitude of changes.

Factor	Change	Approximate change in earnings before regulatory deferral account transfers (in millions)	5 year high	5 year low
Hydro generation[1]	1,000 GWh	$ 50	47,665 GWh	40,485 GWh
Electricity trade margins	$1/MWh	35	n/a	n/a
Interest rates	+/- 1%	35	5.66%[2]	2.39%[2]
Exchange rates (Cdn/US)	$ 0.01	3	$ 0.84[3]	$ 0.64[3]
Weather	1°C change in average temperature	1	1.3°C[4]	-0.3°C[4]
Pension costs	1% change in the expected return of 7% on pension assets[5]	3	13.20%	-4.10%

[1] *Assumes change in hydro generation is offset by corresponding change in energy imports (i.e. increase in hydro generation is offset by decrease in energy imports).*

[2] *Interest rates are the average Canadian short-term interest rates (3 month Canadian Dollar Offered Rate).*

[3] *Exchange rates are the average Canadian Dollar noon rates for F2002 to F2006.*

[4] *Weather high and low numbers represents the variance in degrees Celsius from the normal temperatures over the winter months November to March from 2001/02 to 2005/06. (-0.3 degrees lower than normal to 1.3 degrees higher than normal – normal is the 10-year rolling average).*

[5] *The impact of this change affects earnings in the subsequent year.*

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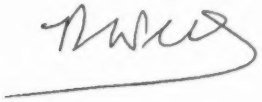
MANAGEMENT REPORT

The consolidated financial statements of British Columbia Hydro and Power Authority (BC Hydro) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 12, 2006 [Except for note 3 which is as of May 18, 2006]. The consolidated financial statements have also been reviewed by the Audit & Risk Management Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit & Risk Management Committee.

The financial statements have been examined by independent external auditors. The external auditors' responsibility is to express their opinion on whether the financial statements, in all material respects, fairly present BC Hydro's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Audit & Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit & Risk Management Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The Audit & Risk Management Committee also recommends the appointment of external auditors to the Board of Directors. The internal and external auditors have full and open access to the Audit & Risk Management Committee, with and without the presence of management.



R.G. (Bob) Elton
President
and Chief Executive Officer

A. (Alister) Cowan
Executive Vice-President Finance
and Chief Financial Officer

Vancouver, Canada
May 18, 2006

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AUDITORS' REPORT

The Lieutenant Governor in Council, Province of British Columbia:

We have audited the consolidated balance sheet of British Columbia Hydro and Power Authority as at March 31, 2006 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of British Columbia Hydro and Power Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of British Columbia Hydro and Power Authority as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada
May 12, 2006 [Except for note 3 which is as of May 18, 2006]

CONSOLIDATED STATEMENT OF OPERATIONS

for the years ended March 31 (in millions)	2006	2005
Revenues		
Domestic	$ 2,765	$ 2,704
Trade	1,546	1,021
	4,311	3,725
Expenses		
Energy costs:		
Domestic	1,196	1,095
Trade	1,292	864
Operations	373	293
Maintenance	267	246
General & administration	165	178
Amortization (Note 4)	411	410
Taxes	147	143
	3,851	3,229
Operating Income	460	496
Finance charges (Note 5)	435	318
Payment from Alcan Inc. (Note 10)	–	(137)
Income Before Regulatory Accounts	25	315
Net change in regulatory accounts (Note 3)	(241)	(87)
Net Income	$ 266	$ 402

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the years ended March 31 (in millions)	2006	2005
Retained earnings, beginning of year	$ 1,688	$ 1,876
Regulatory provision for future removal and site restoration costs (Note 3)	–	(251)
Removal of British Columbia Transmission Corporation from consolidated accounts (Note 16)	(24)	
Net income	266	402
Payment to the Province (Note 3)	(223)	(339)
Retained Earnings, end of year	$ 1,707	$ 1,688

See accompanying notes to consolidated financial statements.

as at March 31 (in millions)	2006	2005
ASSETS		
Property, Plant and Equipment, net (Note 6)	$ 10,021	$ 9,933
Current Assets		
Cash and cash equivalents	23	37
Accounts receivable and accrued revenue	446	398
Materials and supplies	135	97
Prepaid expenses	93	143
Mark-to-market gains	277	185
	974	860
Other Assets and Deferred Charges		
Sinking funds (Note 7)	846	992
Regulatory assets (Note 3)	863	578
	1,709	1,570
	$ 12,704	$ 12,363
LIABILITIES AND EQUITY		
Long-term debt net of sinking funds	$ 5,696	$ 5,777
Sinking funds presented as assets	846	992
Long-Term Debt (Note 8)	6,542	6,769
Current Liabilities		
Current portion of long-term debt (Note 8)	954	843
Accounts payable and accrued liabilities	1,089	1,104
Mark-to-market losses	301	183
	2,344	2,130
Other Liabilities		
Regulatory liabilities (Note 3)	440	396
Deferred contributions (Note 11)	856	835
Debt issue and related costs	125	42
Other long-term liabilities (Note 12)	538	417
Foreign currency contracts (Notes 8 and 9)	152	86
	2,111	1,776
Retained Earnings	1,707	1,688
	$ 12,704	$ 12,363

Commitments and Contingencies (Note 14)

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

L.I. (Larry) Bell
Chair

W.C. (Wanda) Costuros
Chair, Audit & Risk Management Committee

for the years ended March 31 (in millions)	2006	2005
Operating Activities		
Net income	$ 266	$ 402
Regulatory account transfers	(212)	(123)
Adjustments for non-cash items:		
Amortization of regulatory accounts	59	36
Amortization of property, plant and equipment	411	410
Foreign exchange translation losses (gains)	18	(105)
Amortization of debt issue and related costs	(9)	(9)
Deferred revenue	15	22
Unrealized mark-to-market losses	26	24
Sinking fund income	(54)	(48)
Employee benefit plan expenses	35	38
Other non-cash items	19	2
	574	649
Working capital changes	63	(60)
Cash provided by operating activities	637	589
Investing Activities		
Property, plant and equipment expenditures	(607)	(529)
Deferred contributions	68	66
Dismantling costs	(11)	(13)
Proceeds from property sales	2	5
Cash used for investing activities	(548)	(471)
Financing Activities		
Bonds issued	400	540
Bonds retired	(616)	(598)
Revolving borrowings	188	(42)
Sinking fund withdrawals	194	39
Debt issue and related costs	90	(5)
Payment to the Province	(339)	(73)
Settlement of derivative contracts	–	11
Cash used for financing activities	(83)	(128)
Increase (decrease) in cash and cash equivalents	6	(10)
Cash and cash equivalents, beginning of year	17	47
Cash and cash equivalents, end of year	$ 23	$ 37
Supplemental disclosure of cash flow information		
Interest paid	$ 498	$ 505

See accompanying notes to consolidated financial statements.

FOR THE YEARS ENDED MARCH 31, 2006 AND 2005

Purpose

British Columbia Hydro and Power Authority (BC Hydro) was established in 1962 as a Crown corporation of the Province of British Columbia (the Province) by enactment of the Hydro and Power Authority Act. As directed by the Hydro and Power Authority Act, BC Hydro's mandate is to generate, manufacture, distribute and supply power. BC Hydro's corporate purpose is to provide "Reliable power, at low cost, for generations." BC Hydro is subject to regulation (see Note 3) by the British Columbia Utilities Commission (the Commission) which, among other things, approves the rates BC Hydro charges for its services.

BC Hydro owns and operates electric generation and distribution facilities in the province of British Columbia. BC Hydro also owns transmission facilities in the province of British Columbia that are operated by British Columbia Transmission Corporation (BCTC), an independent Crown corporation of the Province.

Consolidation

The consolidated financial statements include the accounts of BC Hydro and its principal wholly owned operating subsidiaries Powerex Corp. (Powerex), Powertech Labs Inc., BCH Services Asset Corp., and Columbia Hydro Constructors Ltd. All intercompany transactions and balances are eliminated upon consolidation.

The accounts of BCTC were removed from BC Hydro's consolidated accounts effective April 1, 2005, when BCTC was considered operationally and financially independent of BC Hydro (Note 16).

Use of Estimates

Management of BC Hydro has made a number of estimates and assumptions relating to the reporting of assets and liabilities and to the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with Canadian GAAP. Actual results could differ from these estimates.

Regulatory Accounting

BC Hydro is regulated by the Commission, and they are both subject to general or special directives and directions issued by the Province. BC Hydro operates primarily under a cost of service regulation as prescribed by the Commission. Orders in Council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province. Calculation of its revenue requirements and rates charged to customers are established through applications filed with and approved by the Commission.

BC Hydro applies various accounting policies that differ from Canadian generally accepted accounting principles (GAAP) for enterprises that do not operate in a rate-regulated environment (see Note 3). Generally, these policies result in deferral and amortization of costs and recoveries to allow for adjustment of future rates. In the absence of rate-regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. These accounting policies support BC Hydro's regulation and have been established through ongoing application by approval of the Commission.

Revenues and Energy Costs

Domestic revenues comprise sales to customers within the province of British Columbia, and sales of firm energy outside the province under long-term contracts that are reflected in BC Hydro's domestic load requirements. Other sales outside the province are classified as trade.

Trade revenues and energy costs include the effects of using commodity derivatives. The impacts on trading transactions of realized and unrealized gains and losses resulting from changes in fair value are reflected on a net basis.

Revenue is recognized on the basis of billing cycles and also includes accruals for electricity deliveries not yet billed.

Foreign Currency Translation

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Property, Plant and Equipment

Property, plant and equipment in service are recorded at cost which includes materials, direct and indirect labour, an appropriate allocation of administration overhead and finance charges capitalized during construction. Property, plant and equipment in service include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty. Upon retirement or disposal, any gain or loss is charged to amortization.

Unfinished construction consists of costs of property, plant and equipment that are under construction or not ready for service. Costs are transferred to property, plant and equipment in service when the constructed asset is substantially complete and capable of operation at a significant level of capacity.

Amortization

Property, plant and equipment in service are amortized on an individual or pooled basis over the expected useful lives of the assets, generally using the straight-line method.

The expected useful lives, in years, of BC Hydro's main classes of property, plant and equipment are:

Generation	
Hydraulic	50 – 100
Thermal	10 – 50
Lines	35 – 100
Substations	20 – 50
Buildings	45 – 50
Equipment	7 – 20
Computer hardware & software	2 – 10
Service vehicles	7 – 20
Sundry	20 – 45

Cash and Cash Equivalents

Cash and cash equivalents include cash and units of a money market fund that are valued at the lower of cost or market.

Materials and Supplies
Materials and supplies are valued at the lower of average cost and net realizable value.

Derivative Financial Instruments
BC Hydro uses derivative financial instruments to manage interest rate and foreign exchange risks related to debt, and exposure to electricity and gas market prices.

Derivatives that are designated as hedges are deemed to be effective in offsetting the designated risk and are accounted for on a basis consistent with the underlying financial exposure. Payments and receipts under interest rate and cross-currency swap contracts are recognized as adjustments to finance charges. Gains and losses on terminated interest rate and cross-currency swaps, options and forward rate agreements that are accounted for as hedges are deferred and amortized on a straight-line basis over the original remaining term of the related contract.

If a derivative is not designated as a hedge or, if a derivative is no longer designated as a hedge or the hedging relationship is terminated, then the derivative is recorded at fair value from the date the hedging relationship ceases. The change in fair value is recorded as an adjustment of finance charges.

For energy trading activities and certain liability management derivatives that are not accounted for as hedges, mark-to-market accounting is applied. For energy trading, open trade positions that are derivative commodity instruments are recorded at fair value and recorded as assets or liabilities in the balance sheet. The changes in fair value of open positions, primarily resulting from changes in market prices subsequent to the transaction date, are recognized as gains or losses in the period of change. For energy trading activities, the gains or losses are included in trade revenues. For liability management activities, the related gains or losses are included in finance charges.

Fair Value
The fair value of financial instruments and energy trading positions reflect changes in the level of commodity market prices, interest and foreign exchange rates. Fair value is determined based on exchange or over-the-counter quotations. Where no such information is available, fair value is established through pricing models and reflects the amount that BC Hydro expects it would receive or pay to terminate the position at the date that the value is established.

Fair value amounts reflect management's best estimates considering various factors including closing exchange or over-the-counter quotations, estimates of future prices and foreign exchange rates, time value and volatility. The assumptions used in establishing fair value amounts could differ from actual prices and the impact of such variations could be material.

Sinking Funds
Sinking funds are held as individual portfolios or units in a pooled bond fund. Securities included in an individual portfolio are recorded at cost, adjusted by amortization of any discounts or premiums arising on purchase, on a yield basis over the estimated term to settlement of the security. Realized gains and losses are included in sinking fund income. Unrealized gains and losses are not recognized.

Deferred Revenue
Deferred revenue consists principally of amounts received under the Skagit River Agreements. Under these agreements, BC Hydro is required to deliver a predetermined amount of electricity each year for an 80-year period ending in fiscal 2066. In return BC Hydro receives approximately US$22 million each year for a 35-year period ending in fiscal 2021 and US$100,000 (adjusted for inflation) each year for an 80-year period ending in fiscal 2066.

The amounts received under the Skagit River Agreements are deferred and included in income on an annuity basis over the electricity delivery period ending in fiscal 2066.

Deferred Contributions

Deferred contributions in aid of construction are amounts paid by certain customers toward the cost of property, plant and equipment required for the extension of services. These amounts are amortized over the expected useful life of the related assets.

Contributions arising from the Columbia River Treaty relate to three dams built by BC Hydro in the mid-1960s to regulate the flow of the Columbia River. The contributions were made to assist in financing the construction of the dams. These proceeds were deferred and are amortized to income over the period ending in fiscal 2025, the minimum term of the treaty.

Asset Retirement Obligations

Asset retirement obligation costs are legal obligations associated with the retirement of long-lived assets. A liability is recorded at the present value of the estimated future costs when a reasonable estimate of the fair value can be made. When a liability is initially recorded, BC Hydro capitalizes the costs by increasing the carrying value of the long-lived asset. The liability is adjusted for the passage of time through accretion (interest) expense and the capitalized cost is amortized over the useful life of the associated asset. Actual costs incurred upon settlement of an asset retirement obligation are charged against the related liability to the extent of the accrued balance. Any difference between the actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized as a gain or loss in earnings at that time.

Defined Benefit Plans

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the return on plan assets, those assets are valued at fair value. The obligations are discounted using a market interest rate at the end of the year on high-quality corporate debt instruments that match the timing and amount of expected benefit payments.

Transitional obligations and assets and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active members at the date of amendment.

The excess of the net cumulative unamortized actuarial gain or loss over ten per cent of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the employee benefit plans is 11 years (2005 – 11 years). When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Environmental Expenditures and Liabilities

BC Hydro conducts its operations in a manner that enables it to meet existing statutory requirements of environmental legislation or standards. The objective is to minimize the impact on the quality of the natural and social environment, providing enhancements wherever practical.

Environmental expenditures are expensed as part of operating activities, unless they constitute an asset improvement or act to mitigate or prevent possible future contamination, in which case the expenditures are capitalized and amortized to income. Environmental liabilities are accrued when environmental expenditures related to activities of BC Hydro are considered likely and the costs can be reasonably estimated. Estimated liabilities are reviewed periodically and these reviews can result in adjustments to previously recorded items.

Taxes

BC Hydro is subject to local government taxes that are paid to municipalities and regional districts. As a Crown corporation, BC Hydro is exempt from Canadian federal and provincial income taxes.

Comparative Figures

Certain amounts in the prior year's statements have been reclassified to conform to the current year's presentation.

Disclosures by Entities Subject to Rate Regulation

In May 2005, the Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline 19, *Disclosures by Entities Subject to Rate Regulation (AcG 19)*. AcG 19 requires certain aspects of disclosure and presentation of information in the financial statements of entities providing services or products for which customer rates are established, or subject to approval, by a regulator.

AcG 19 is effective for fiscal years ending on or after December 31, 2005. BC Hydro's consolidated financial statements and supporting notes reflect the requirements of AcG 19. As a result of these changes, certain regulatory amounts netted in the prior year's figures have been reclassified.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities have been established through rate regulation. The impact of regulatory accounting has resulted in an increase to net income of $241 million (2005 – $87 million).

(in millions)	2005	Additions	Amortization	Net change	2006
Regulatory Assets					
Heritage Deferral Account	$ 138	$ 103	$ –	$ 103	$ 241
Non-Heritage Deferral Account	131	74	–	74	205
BCTC Transition Account	–	25	–	25	25
Demand-Side Management Programs	207	90	(28)	62	269
Foreign Exchange Gains and Losses	(2)	4	–	4	2
Deferred Debt Costs	55	–	(55)	(55)	–
Dam Safety and Site Survey Investigation Costs	20	7	(27)	(20)	–
First Nation Negotiation, Litigation and Settlement Costs Account	29	96	(4)	92	121
Total Regulatory Assets	$ 578	$ 399	$ (114)	$ 285	863
Regulatory Liabilities					
Regulatory Provision for Future Removal and Site Restoration Costs	$ 237	$ –	$ (11)	$ (11)	$ 226
Trade Income Deferral Account	115	99	–	99	214
Unitized Bond Fund Account	44	–	(44)	(44)	–
Total Regulatory Liabilities	$ 396	$ 99	$ (55)	$ 44	$ 440
Net	$ 182	$ 300	$ (59)	$ 241	$ 423

Heritage Deferral Account

Under a Special Directive issued by the Province, the Commission was directed to authorize BC Hydro to establish the Heritage Deferral Account. This account is intended to mitigate the impact of certain variances between the forecasted costs in the revenue requirements application and actual costs of service associated with the Heritage Resources by adjustment of net income. The amortization of balances will be subject to Commission approval. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $103 million decrease in net income.

Non-Heritage Deferral Account

Under a Special Directive issued by the Province, the Commission approved the establishment of a Non-Heritage Deferral Account, which is intended to mitigate the impact of certain cost variances between the forecasted costs in the revenue requirements application and actual costs related to energy acquisition and maintenance of BC Hydro's distribution assets by adjustment of net income. The amortization of balances will be subject to Commission approval. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $74 million decrease in net income.

BCTC Transition Deferral Account

Under a Special Directive issued by the Province, variances that arise between the costs of transmission services included in BC Hydro's rates and BCTC's rates are deferred. The amortization of balances will be subject to Commission approval. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $25 million decrease in net income.

Demand-Side Management Programs

Established under a regulatory order from the Commission, demand-side management programs are designed to reduce the energy requirements on BC Hydro's system. Costs of the programs include materials, direct labour and applicable portions of administration charges, equipment costs, and incentives. Amounts are deferred and amortized on a straight-line basis over the anticipated period of benefit of the program, generally not in excess of ten years.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria would be recorded as property, plant and equipment. In 2006, $90 million of period costs were incurred and amortization of previously capitalized amounts totaled $28 million. Consequently, net income would have been $62 million lower than would have been recorded in the absence of rate regulation.

Foreign Exchange Gains and Losses on the Translation of Long-Term Foreign Denominated Monetary Items

Established under a regulatory order, foreign exchange gains and losses arising from the translation of long-term foreign denominated monetary items are deferred and amortized over the term of the underlying items on a straight line basis. In the absence of rate regulation, these foreign exchange gains and losses would be recognized when realized. In 2006, $4 million of realized losses were deferred in operating results. Consequently, net income would have been $4 million lower than would have been recorded in the absence of rate regulation.

Gains and losses on foreign currency hedges of foreign denominated long-term debt are also deferred and amortized.

First Nation Negotiations, Litigation and Settlement Costs

Established under a regulatory order, costs incurred for First Nation negotiations, litigation and settlements are deferred and amortized on a straight-line basis over a period of 10 years.

During the year, BC Hydro recorded a provision for future negotiation and settlement costs. These costs are outside the scope of the existing regulatory order. BC Hydro made an application to the Commission for approval of a designated regulatory account with respect to these costs and recover these amounts in future rates when amounts are actually incurred. On May 18, 2006 the Commission approved the establishment of a designated regulatory account in respect of these costs.

In the absence of rate regulation, these amounts would be substantially treated as period costs, and expensed in the year in which they are provided for or incurred. In 2006, $96 million of period costs were recorded as regulatory assets, and the amortization of previously capitalized amounts totaled $4 million. Consequently, net income would have been $92 million lower than would have been recorded in the absence of rate regulation.

Regulatory Provision for Future Removal and Site Restoration Costs

As part of its October 2004 decision, the Commission ordered the establishment of a regulatory provision for future removal and site restoration costs. This account was established in 2005 by a one-time transfer of $251 million from retained earnings. The costs of dismantling and disposal of property, plant and equipment will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation.

This liability has been recognized solely as a result of rate regulation as costs for future removal and site restoration have been established in excess of amounts required as asset retirement obligations. In the absence of rate regulation, it would be anticipated that a liability would not be recognized. The amortization of previously capitalized amounts totaled $11 million in the current year. Consequently, net income would be $11 million lower than would have been recorded in the absence of rate regulation.

Trade Income Deferral Account

Established under a Special Directive issued by the Province, this account is intended to mitigate the uncertainty associated with forecasting the net income of BC Hydro's trade activities. The impact is to defer the difference between the Trade Income forecast in the revenue requirements application and actual Trade Income. For the purposes of this calculation, Trade Income is defined as the net income of Powerex based on Canadian GAAP. The difference between the Trade Income forecast and actual Trade Income is deferred except for amounts arising from a net loss in Trade Income or the portion of Trade Income in excess of $200 million. The amortization of balances will be subject to Commission approval.

In the absence of rate regulation, GAAP would require the inclusion of actual Trade Income to be reflected in operating results, regardless of the variance between forecast and actual amounts, which would have resulted in a $99 million increase in net income.

Other Regulatory Accounts

As a result of a review of all regulatory accounts, BC Hydro has decided not to seek recovery of certain amounts through future rates. These accounts include dam safety and site survey investigation costs, deferred debt costs, foreign exchange gains and losses, and the unitized bond fund account. As a result, a net amount of $11 million was written off through the amortization of regulatory accounts.

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of the Commission and operating results experienced during the year.

Payment to the Province

Under a Special Directive from the Province, BC Hydro is required to make an annual Payment to the Province (the Payment) on or before June 30 of each year. The Payment is equal to 85 per cent of BC Hydro's distributable surplus for the most recently completed fiscal year assuming that the debt to equity ratio, as defined by the Province, after deducting the Payment, is not greater than 80:20. If the Payment would result in a debt to equity ratio exceeding 80:20, then the Payment will be based on the greatest amount that can be paid without causing the debt to equity ratio to exceed 80:20.

Rate Regulation

On October 29, 2004, the Commission issued its decision related to BC Hydro's Revenue Requirements Application dated December 15, 2003 that covered BC Hydro's 2005 and 2006 fiscal years. As a result of this decision, BC Hydro was entitled to a rate increase of 4.85 per cent effective April 1, 2004. As a result of the approved rate increases, the allowed rate of return totaled 13.51 per cent.

(in millions)	2006	2005
Amortization of property, plant and equipment in service	$ 406	$ 429
Amortization of deferred contributions	(44)	(43)
Property, plant and equipment written-off	49	11
Dismantling costs	11	15
Salvage proceeds	(11)	(2)
	$ 411	$ 410

During the year, BC Hydro recorded a write-down of thermal generation assets to reflect a reduction in their future use. The write-down, totalling $23 million, is included in property, plant and equipment written-off.

(in millions)	2006	2005
Interest on long-term debt	$ 493	$ 500
Sinking fund income	(54)	(48)
Other financial income	(3)	(11)
Foreign exchange translation losses (gains)	18	(105)
Amortization of debt issue and related costs	(9)	(9)
	$ 445	$ 327
Less: Assigned to unfinished construction	(10)	(9)
	$ 435	$ 318

(in millions)	2006				2005			
	Property, Plant and Equipment in Service	Accumulated Amortization	Unfinished Construction	Net Book Value	Property, Plant and Equipment in Service	Accumulated Amortization	Unfinished Construction	Net Book Value
Generation								
Hydraulic	$ 5,476	$ 1,754	$ 101	$ 3,823	$ 5,382	$ 1,723	$ 142	$ 3,801
Thermal	454	257	5	202	456	219	–	237
	5,930	2,011	106	4,025	5,838	1,942	142	4,038
Lines	6,736	2,742	261	4,255	6,404	2,519	250	4,135
Substations	2,262	1,147	71	1,186	2,218	1,107	24	1,135
Other								
Land and buildings	397	179	1	219	408	137	4	275
Equipment	305	228	3	80	282	210	1	73
Computer hardware & software	437	292	30	175	426	267	45	204
Service vehicles	102	60	5	47	113	67	3	49
Sundry	37	17	14	34	36	15	3	24
	1,278	776	53	555	1,265	696	56	625
Total	$16,206	$ 6,676	$ 491	$ 10,021	$ 15,725	$ 6,264	$ 472	$ 9,933

Sinking funds are held by the Trustee (the Minister of Finance for the Province) for the redemption of long-term debt. The sinking fund balances at the balance sheet date include the following investments:

(dollar amounts in millions)	2006		2005	
	Carrying Value	Weighted Average Effective Rate[1]	Carrying Value	Weighted Average Effective Rate[1]
Money market funds[2]	$ 48	3.7 %	$ 34	1.0 %
Province and BC Crown corporation bonds	331	4.8	354	4.4
Federal and other provincial government securities	467	4.8	604	4.2
	$ 846		$ 992	

[1] *Rate calculated on market yield to maturity.*

[2] *Money market funds consist of federal and provincial government paper and high-grade commercial paper with a maturity of one year or less.*

Sinking Fund Requirements

Effective December 12, 2005, all sinking fund payment requirements on all new and outstanding debt have been removed.

Note 8 Long-Term Debt and Debt Management

BC Hydro's long-term debt comprises bonds and debentures and revolving borrowings obtained under an agreement with the Province.

Under the Hydro and Power Authority Act, BC Hydro is subject to a borrowing limit of $8,800 million after deduction of sinking funds. As at March 31, 2006, BC Hydro's total debt under the borrowing limit was $6,650 million (2005 – $6,620 million). The authorized commercial paper borrowing program, which includes revolving borrowings, is limited to $1,400 million under the Fiscal Agency Agreement between BC Hydro and the Province. At March 31, 2006, the outstanding amount under the borrowing limit was $880 million (2005 – $896 million).

During fiscal 2006, BC Hydro issued bonds totalling $400 million (2005 – $540 million) with a weighted average effective interest rate of 4.8 per cent (2005 – 5.4 per cent) and a weighted average term to maturity of 25.8 years (2005 – 11.9 years).

Long-term debt, expressed in Canadian dollars, is summarized in the following table by year of maturity:

(dollar amounts in millions)	2006				2005			
	Canadian	Foreign	Total	Weighted Average Interest Rate[1]	Canadian	Foreign	Total	Weighted Average Interest Rate[1]
Maturing in fiscal:								
2006	$ –	$ –	$ –	–	$ 413	$ 188	$ 601	5.7
2007	314	210	524	5.3	314	217	531	4.5
2008	9	584	593	5.5	9	605	614	4.2
2009	94	–	94	10.0	124	–	124	8.6
2010	574	58	632	6.5	574	60	634	6.5
2011	150	–	150	6.5	–	–	–	–
Total								
1 – 5 years	1,141	852	1,993	6.1	1,434	1,070	2,504	5.4
6 – 10 years	1,425	233	1,658	6.1	1,425	242	1,667	6.2
11 – 15 years	975	–	975	8.7	525	–	525	5.4
16 – 20 years	706	584	1,290	8.3	1,306	–	1,306	10.1
21 – 25 years	–	–	–	–	–	605	605	6.6
26 – 30 years	800	–	800	5.5	400	–	400	6.3
Over 30 years	–	350	350	7.4	–	363	363	7.4
Bonds and debentures	5,047	2,019	7,066	6.8	5,090	2,280	7,370	6.7
Revolving borrowings	412	18	430	3.8	220	22	242	2.7
	$ 5,459	$ 2,037	7,496		$ 5,310	$ 2,302	7,612	
Less: Current portion			954				843	
Long-term debt			$ 6,542				$ 6,769	

[1] *The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and the current interest rate in effect at March 31 for floating-rate bonds, all before considering the effect of derivative financial instruments used to manage interest rate risk.*

The following interest rate contracts were in place at March 31, 2006 and 2005, with a carrying value of $nil at March 31, 2006 (2005 – $2 million). Floating rates are based on the effective rates at the balance sheet date and vary over time.

(dollar amounts in millions)	2006	2005
Receive fixed, pay floating rate swaps		
Notional amount[1]	$ 1,792	$ 1,152
Weighted average receive rate	4.57%	4.91%
Weighted average pay rate	3.93%	2.71%
Weighted terms	6 years	6 years
Receive floating, pay fixed rate swaps		
Notional amount[1]	$ 290	$ 808
Weighted average receive rate	3.94%	1.71%
Weighted average pay rate	4.90%	4.35%
Weighted terms	7 years	3 years
Receive floating, pay floating rate swaps		
Notional amount[1]	$ 175	$ 181
Average receive rate	4.95%	2.95%
Average pay rate	4.58%	3.05%
Remaining term	1 years	2 years

[1] *Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.*

The net carrying value of foreign exchange forward contracts in place at March 31, 2006 was $(5) million (2005 – $(4) million).

The following foreign currency contracts with a net carrying value of $(152) million (2005 – $(86) million) were in place at March 31, 2006 and 2005. Such contracts are used to hedge foreign dollar principal and interest payments.

(dollar amounts in millions)	2006	2005
Cross-Currency Swaps		
BC Hydro receives foreign currency:		
United States dollar – notional amount[1]	US $1,334	US $445
United States dollar – weighted average exchange rate	1.29	1.41
Remaining term	12 years	5 years

[1] *Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.*

Total long-term debt, sinking funds and foreign currency contracts are stated in the following table showing the Canadian dollar equivalent of the currency in which they are payable.

(in millions)	2006						2005
		In Canadian Dollars					
	In Currency Units	At the closing exchange rates at the balance sheet date	Foreign Currency Contracts	Sinking Funds	Net Principal Outstanding Before Hedging	Net Principal Outstanding After Hedging	Net Principal Outstanding After Hedging
Canadian	$ 5,459	$ 5,459	$ –	$ (517)	$ 4,942	$ 6,439	$ 5,375
US	1,745	2,037	152	(329)	1,860	363	1,375
		$ 7,496	$ 152	$ (846)	$ 6,802	$ 6,802	$ 6,750

Fair Value

At March 31, 2006 and 2005, BC Hydro's financial instruments included cash and cash equivalents, accounts receivable, sinking funds, loans receivable, accounts payable, long-term debt and interest rate, foreign exchange and commodity derivative financial instruments. Some of these derivative financial instruments are held with the Province, which enters into such agreements with third parties on BC Hydro's behalf.

BC Hydro's financial instruments not shown in the following table have fair values that approximate carrying amounts (bracketed amounts represent liabilities):

(in millions)	2006		2005	
	Carrying Value[1]	Fair Value[2]	Carrying Value[1]	Fair Value[2]
Bonds and debentures	$ (7,066)	$ (8,706)	$ (7,370)	$ (8,804)
Revolving borrowings[3]	(430)	(430)	(242)	(242)
Long-term debt before current portion	$ (7,496)	$ (9,136)	$ (7,612)	$ (9,046)
Sinking funds	$ 846	$ 844	$ 992	$ 1,006
Derivative financial instruments				
Net foreign currency contracts	$ (152)	$ (147)	$ (86)	$ (88)
Interest rate swaps	–	(12)	2	22
Foreign exchange forward contracts	(5)	(5)	(4)	(4)
Commodity derivatives	27	6	4	(12)

[1] *Carrying value represents the amount which is recorded in BC Hydro's financial statements.*

[2] *Market rates and prices used in determining fair value are as of the balance sheet date.*

[3] *As the interest rates on revolving borrowings are reset on a regular basis, fair value approximates carrying value.*

Credit Risk Management

BC Hydro is directly exposed to counterparty credit risk as a result of the sale of electricity and related services to its domestic customers and purchase of electricity from independent power producers. BC Hydro is also exposed to credit risk as a result of the trade activities of Powerex. Powerex's principal counterparties are utilities, energy marketers, independent power producers, industrials, power pools, and municipalities in the western United States, western Canada, as well as parts of the eastern United States and eastern Canada. With respect to Powerex's sales and purchases, credit risk is managed by authorizing transactions with only credit-worthy counterparties as determined by BC Hydro Board-approved policies, and by monitoring the credit risk and credit standing of counterparties on a regular basis.

In December 2004, Alcan Inc. paid Powerex US$110.4 million representing an arbitration award of US$100 million plus interest related to Alcan Inc.'s payment obligation under a Power Purchase and Sale Agreement between Powerex and Enron Power Marketing, Inc.

(in millions)	2006	2005
Contributions in aid of construction	$ 681	$ 651
Contributions arising from the Columbia River Treaty	175	184
	$ 856	$ 835

(in millions)	2006	2005
Environmental liabilities	$ 33	$ 33
Pension liabilities	89	72
Contingent liabilities	88	–
Deferred revenue	313	297
Asset retirement obligations	15	15
	$ 538	$ 417

For asset retirement obligations, BC Hydro estimates the undiscounted amount of cash flows required to settle the asset retirement obligation is approximately $22 million, which will be incurred between 2008 and 2018. A discount rate of 5.9 per cent was used to calculate the carrying value of the asset retirement obligations.

BC Hydro provides a defined benefit statutory pension plan to substantially all employees, as well as supplemental arrangements which provide pension benefits in excess of statutory limits. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. BC Hydro contributes amounts as prescribed by an independent actuary. BC Hydro is responsible for ensuring that the statutory pension plan has sufficient assets to pay the pension benefits upon retirement of employees. The supplemental arrangements are unfunded. The most recent actuarial funding valuation for the statutory pension plan was performed at December 31, 2003. The next valuation for funding purposes will be as of December 31, 2006.

BC Hydro also provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least 10 years of service and qualify to receive pension benefits. Certain benefits, including the short-term continuation of health care and life insurance, are provided to terminated employees or to survivors on the death of an employee. These other post-retirement benefits and post-employment benefits are not funded. Post-employment benefits include the pay-out of benefits that vest or accumulate, such as banked vacation. Information about the benefit plans, post-retirement benefits and post-employment benefits other than pensions is as follows:

(a) The net expense for BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	2006	2005	2006	2005
Net expense	$ 34	$ 40	$ 40	$ 35

In fiscal 2004, the transfer of approximately 260 employees to BCTC resulted in the curtailment of an insignificant portion of the BC Hydro defined benefit pension plan and other post-retirement benefit plans. The curtailment and related settlement of a portion of the plans was accounted for in fiscal 2005.

(b) Information about BC Hydro's benefit plans as at March 31, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	2006	2005	2006	2005
Accrued benefit obligation	$ 2,396	$ 2,290	$ 332	$ 282
Fair value of plan assets	2,142	2,048	–	–
Plan deficit	$ (254)	$ (242)	$ (332)	$ (282)
Unamortized net actuarial losses	380	376	159	133
Unamortized past service costs	8	9	–	–
Unamortized transition (asset) liability	(89)	(104)	40	46
Accrued benefit asset (liability)	$ 45	$ 39	$ (133)	$ (103)

The pension plan assets and obligations are measured as at December 31, 2005. The other benefit plan obligations are measured as at March 31, 2006. No valuation allowance was required in 2006 and 2005. None of the above benefit plans were fully funded.

(c) The significant assumptions adopted in measuring BC Hydro's accrued benefit obligations are as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2006	2005	2006	2005
Discount rate				
– benefit cost	6.0%	7.0%	6.0%	7.0%
– accrued benefit obligation	5.5%	6.0%	5.5%	6.0%
Expected long-term rate of return on plan assets	7.0%	7.0%	n/a	n/a
Rate of compensation increase				
– benefit cost	3.5%	5.0%	n/a	n/a
– accrued benefit obligation	3.5%	3.5%	n/a	n/a

Health care cost trend rate:

	2006	2005
Weighted average health care cost trend rate	7.5 %	7.2 %
Weighted average ultimate health care cost trend rate	4.2 %	4.1 %
Year in which ultimate health care cost trend rate will be achieved	2011	2011

(d) Other information about BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	2006	2005	2006	2005
Employer contributions	$ 34	$ 31	$ –	$ –
Employee contributions	$ 15	$ 15	$ –	$ –
Benefits paid	$ 109	$ 104	$ 10	$ 9
Settlement payments	$ 82	$ 13	$ –	$ –

The actuarial valuation as at December 31, 2003 revealed a specific funding requirement of approximately $166 million. BC Hydro is required to make these payments with interest over a five-year period ending December 31, 2008. These amounts represent funding commitments to fulfill certain requirements specified by the BC Pension Benefits Standards Act related to the unlikely event that BC Hydro ceases to operate, and are designated as contributions to the BC Hydro pension plan. Amounts contributed are in addition to existing funding commitments and do not impact operating results in the period in which the payments are made.

BC Hydro requested an extension from the Financial Institutions Commission of B.C. ("FICOM") for making the specific funding payment that would have otherwise been due in July 2005. The extension was sought to allow BC Hydro time to pursue an alternative to the required funding. FICOM has granted BC Hydro an extension to October 31, 2006 to complete the resolution of the funding alternative. Future payments will be funded with cash or through alternative means.

(e) Asset allocation of the defined benefit statutory pension plan as at the measurement date:

	Target Allocation	2006	2005
Equities	60%	60%	60%
Fixed income investments	30%	30%	30%
Real estate	10%	10%	10%

Plan assets are re-balanced within ranges around target applications. The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

Energy Commitments

BC Hydro (excluding Powerex) has long-term energy purchase contracts to meet a portion of its expected future domestic electricity requirements. The minimum obligations to purchase energy under these contracts have a total value of approximately $7,899 million of which approximately $2,558 million relates to the purchase of natural gas and natural gas transportation contracts, at market prices over 30 years. The remaining commitments are at predetermined prices. Powerex has energy purchase commitments with a minimum payment obligation of $5,358 million and purchase commitments for energy and capacity services with a value of $139 million.

The total combined payments for the next five years are approximately (in millions): 2007 – $1,660; 2008 – $1,028; 2009 – $895; 2010 – $849; 2011 – $817.

Powerex has energy sales commitments over the next five years with a total value of $974 million.

Lease and Service Agreements

BC Hydro has entered into various agreements to lease facilities or assets, or to purchase business support services. The agreements cover periods of up to 10 years, and the aggregate minimum payments are approximately $890 million. Payments for the next five years are approximately (in millions): 2007 – $143; 2008 – $142; 2009 – $141; 2010 – $140; 2011 – $140.

Demand-Side Management Programs

BC Hydro has entered into Power Smart incentive and energy study agreements with customers. BC Hydro has committed to payments under these agreements totalling approximately $9 million over the next two years as follows (in millions): 2007 – $7; 2008 – $2.

Legal Contingencies

(a) California Power Markets: At March 31, 2006, Powerex was owed US$268 million (Cdn$313 million) by the markets operated by the California Power Exchange (Cal Px) and the California Independent System Operator (Cal ISO) related to Powerex's electricity trade activities in California during fiscal 2001. As a result of payment defaults by a number of California utilities in 2001, the Cal Px and Cal ISO were unable to pay these amounts to Powerex. In addition, certain California parties requested the Federal Energy Regulatory Commission (FERC) consider whether refunds should be made to the Cal Px, the Cal ISO and the California Department of Water Resources by various suppliers, including Powerex. The FERC is calculating the extent to which sellers' receivables may be offset by refunds to the Cal Px and Cal ISO markets, while FERC's refund orders themselves are before U.S. appellate courts.

Since 2000, Powerex has been named, in some cases along with other energy providers, as a defendant in a number of lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescission based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and that the energy prices were not just and reasonable. Collectively, these proceedings are in various stages. A number of issues and findings are presently on appeal. Certain issues have been ordered by the U.S. Court of Appeals for the Ninth Circuit to be remanded to the FERC for further proceedings, but the court's remand order is subject to pending rehearing applications and remands have not yet occurred.

On March 25, 2004, the FERC approved a settlement agreement between the FERC Trial Staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming practices or concerted partnership practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier of energy and ancillary services to the California market throughout the energy crisis. However, at the request of certain parties, this settlement is still subject to rehearing at FERC and FERC's final order may subsequently be appealed to the courts.

BC Hydro was also joined as a defendant in the California Consumer Class Action lawsuit through cross-claims by other defendants. In response to an application by BC Hydro to be dismissed from the lawsuit, a U.S. Federal District Court judge ruled that BC Hydro is immune from these claims in the United States by virtue of the Foreign Sovereign Immunities Act. The U.S. Court of Appeals for the Ninth Circuit upheld this finding. The court also upheld the District Court's finding that Powerex does not enjoy foreign sovereign entity status and therefore remains a party to the lawsuit, which was ordered to be remanded back to California State Court. Powerex is seeking appeal of the latter decision and related Ninth Circuit rulings to the U.S. Supreme Court.

Due to the ongoing nature and uncertain status of the regulatory and legal proceedings related to the California power markets, management cannot predict at this time the outcome of the claims against Powerex and BC Hydro. BC Hydro has recorded provisions for uncollectible amounts and legal costs associated with the ongoing legal and regulatory impacts of the California energy crisis during fiscal 2001. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that may ultimately be collected may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the collection process.

(b) Facilities and Right of Ways

BC Hydro is subject to existing and pending legal claims relating to alleged infringement and damages in the operation and use of facilities owned by BC Hydro. These claims may be resolved unfavourably with respect to BC Hydro and may have a significant adverse effect on BC Hydro's financial position. For existing claims in respect of which settlement negotiations have advanced to the extent that potential settlement amounts can reasonably be predicted, management has recorded a provision for the potential costs of those settlements. For pending claims, management believes that any loss exposure that may ultimately be incurred may differ materially from management's current estimates. Management has not disclosed the ranges of expected outcomes due to the potentially adverse effect on the negotiation process for these pending claims.

(c) Due to the size, complexity and nature of BC Hydro's operations, various other legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on BC Hydro's consolidated financial position or results of operations.

Revenues, based on point of delivery, are as follows:

(in millions)	2006	2005
British Columbia	$ 2,765	$ 2,704
Canada (excluding British Columbia)	484	204
United States	1,062	817
	$ 4,311	$ 3,725

Substantially all of BC Hydro's assets are located in the Province of British Columbia.

The consolidated financial statements of BC Hydro include the accounts of BCTC for the year ended March 31, 2005. BC Hydro removed BCTC from its consolidated accounts effective April 1, 2005 when BCTC was considered operationally and financially independent of BC Hydro. The consolidated financial statements of BC Hydro for the year ended March 31, 2005 include the following impacts related to consolidation o

(in millions)	2005
Increase in assets	$ 84
Increase in liabilities	60
Increase in retained earnings	24
Increase in revenue	1
Decrease in expenses	(2)
Increase in net income	3

As Crown corporations of the Province, BC Hydro, BCTC and the Province are considered related parties. As a regulatory agency of the Province, the Commission would also be considered a related party of BC Hydro as both organizations are subject to common significant influence by the Province. All transactions between BC Hydro and its related parties are considered to possess commercial substance and are consequently recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The related party transactions are summarized below:

(in millions)	2006	2005
Province of B.C.		
Water rental fees	$ 272	$ 234
Taxes	147	143
Finance charges	432	443
Payment to the Province	223	339
BCTC		
Cost of energy	72	–
Operating costs	90	–
Other	33	–
	$ 1,269	$ 1,159

At March 31, 2006, accounts receivable included $86 million (2005 – $80 million) due from the Province and/or BCTC. Accounts payable and accrued liabilities included $291 million (2005 – $373 million) due to the Province and/or BCTC.

BC Hydro's debt is either held or guaranteed by the Province (see Note 8). Under an agreement with the Province, BC Hydro indemnifies the Province for any credit losses incurred by the Province related to interest rate and foreign currency contracts entered into by the Province on BC Hydro's behalf. At March 31, 2006, the aggregate exposure under this indemnity totaled approximately $175 million (2005 – $111 million). BC Hydro has not experienced any losses to date under this indemnity.

for the years ended or as at March 31 (millions of dollars)	2006[1]	2005[1]	2004	2003	2002
Revenues[2]	$ 4,311	$ 3,725	$ 3,424	$ 3,107	$ 6,311
Expenses					
Energy costs[2]	2,488	1,959	1,580	1,126	4,407
Operating costs[3]	805	717	621	573	550
Amortization	411	410	526	417	386
Taxes	147	143	147	145	166
Finance charges	435	318	452	457	544
Payment from Alcan Inc.	–	(137)	–	–	–
Restructuring costs	–	–	8	37	–
	4,286	3,410	3,334	2,755	6,053
Income Before Regulatory Account Transfers	25	315	90	352	258
Regulatory Transfers	241	87	–	–	–
Rate Stabilization Account	–	–	21	66	145
Net Income	$ 266	$ 402	$ 111	$ 418	$ 403
Property, Plant and Equipment					
At cost	$ 16,697	$ 16,197	$ 15,841	$ 15,609	$ 15,067
Less: Accumulated depreciation	6,676	6,264	5,941	5,816	5,557
Net Book Value	$ 10,021	$ 9,933	$ 9,900	$ 9,793	$ 9,510
Property, Plant and Equipment Expenditures					
Sustaining	$ 363	$ 331	$ 375	$ 367	$ 333
Expansion	247	197	199	329	198
Total property, plant and equipment expenditures[4]	$ 610	$ 528	$ 574	$ 696	$ 531
Demand-side management (DSM) programs	90	71	63	45	14
Total property, plant and equipment and DSM program expenditures	$ 700	$ 599	$ 637	$ 741	$ 545
Less: Contributions in aid of construction	68	66	56	62	54
Net Property, Plant and Equipment Expenditures	$ 632	$ 533	$ 581	$ 679	$ 491
Net Long-Term Debt[5]	$ 6,627	$ 6,583	$ 6,853	$ 6,849	$ 6,889

[1] *The results reflect the impact of Accounting Guideline 19, Disclosure by Entities Subject to Rate Regulation, regarding the recognition and measurement of assets and liabilites subject to rate regulation. Prior years have not been restated.*

[2] *During fiscal 2004, in response to changes in United States accounting standards, BC Hydro amended its accounting policy related to revenue recognition for electricity trade activities that are supported by derivatives such as swaps, forward sales and options. Revenues and energy costs associated with these derivatives are presented on a net basis for fiscal years 2003 to 2006. Revenues and energy costs for fiscal years prior to 2003 have not been re-stated.*

[3] *Maintenance, operations and general and administrative costs.*

[4] *Total property, plant and equipment expenditures include non-cash items.*

[5] *Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.*

FINANCIAL COMPARATIVES

millions of dollars unless otherwise stated	2006[1]	2005[1]	2004	2003	2002
Revenues[2]	$ 4,311	$ 3,725	$ 3,424	$ 3,107	$ 6,311
Net income	$ 266	$ 402	$ 111	$ 418	$ 403
Property, Plant and Equipment	$ 10,021	$ 9,933	$ 9,900	$ 9,793	$ 9,510
Net long-term debt[3]	$ 6,627	$ 6,583	$ 6,853	$ 6,849	$ 6,889
Retained earnings	$ 1,707	$ 1,688	$ 1,876	$ 1,609	$ 1,529
Capital and deferred expenditures	$ 700	$ 599	$ 637	$ 741	$ 545
Debt to equity	70:30	70:30	70:30	72:28	72:28
Return on equity (%)	9.26	14.24	3.74	15.47	15.24
Interest coverage	1.06	1.56	1.22	1.75	1.43

OPERATING COMPARATIVES

millions of dollars unless otherwise stated	2006[1]	2005[1]	2004	2003	2002
Number of customers	1,704,892	1,675,258	1,650,655	1,629,186	1,609,871
Generating capacity (MW):					
Hydroelectric	10,219	10,218	10,207	10,009	10,009
Thermal	1,094	1,093	1,093	1,099	1,093
Peak one-hour demand (MW)	9,317	9,437	9,619	8,481	8,692
Average annual kWh use per residential customer	10,846	10,722	10,761	10,476	10,695
Average number of customers per employee	399	378	372	266	265
Domestic sales (GWh)	52,440	51,205	50,151	48,677	47,801
Trade sales (GWh)	36,547	32,346	28,373	31,182	20,666
Total electricity sold per employee (GWh)	19.45	18.41	17.82	13.14	11.32

[1] *The results reflect the impact of Accounting Guideline 19, Disclosure by Entities Subject to Rate Regulation, regarding the recognition and measurement of assets and liabilites subject to rate regulation. Prior years have not been re-stated.*

[2] *During fiscal 2004, in response to changes in United States accounting standards, BC Hydro amended its accounting policy related to revenue recognition for trade activities that are supported by derivatives such as swaps, forward sales and options. Revenues associated with these derivatives are presented on a net basis in fiscal years 2003 to 2006. Revenues for fiscal years prior to 2003 have not been re-stated.*

[3] *Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.*

for the years ended or as at March 31	2006	2005	2004	2003	2002
Generating Capacity (megawatts)					
Hydroelectric[1]	10,219	10,218	10,207	10,009	10,009
Thermal	1,094	1,093	1,093	1,099	1,093
Total	11,313	11,311	11,300	11,108	11,102
Peak One-Hour Demand Integrated System (megawatts)	9,016	9,437	9,619	8,481	8,692
Customers					
Residential	1,511,435	1,484,339	1,462,079	1,442,597	1,424,505
Light industrial and commercial	189,764	187,313	185,065	183,188	182,025
Large industrial	146	138	136	133	132
Other	3,326	3,265	3,202	3,092	3,064
Trade	221	203	173	176	145
Total	1,704,892	1,675,258	1,650,655	1,629,186	1,609,871
Electricity Sold (gigawatt-hours)					
Residential	16,261	15,814	15,646	15,024	15,170
Light industrial and commercial	17,913	17,459	17,175	16,757	16,446
Large industrial	16,428	16,177	15,505	15,179	14,513
Other	1,838	1,755	1,825	1,717	1,672
Domestic	52,440	51,205	50,151	48,677	47,801
Trade	36,547	32,346	28,373	31,182	20,666
Total	88,987	83,551	78,524	79,859	68,467
Domestic Change Over Previous Year (%)	2.4	2.1	3.0	1.8	(0.7)
Revenues (millions)					
Residential	$ 1,046	$ 1,016	$ 960	$ 923	$ 930
Light industrial and commercial	989	967	912	893	874
Large industrial	584	573	525	516	482
Other energy sales	91	88	89	88	89
Domestic electric	2,710	2,644	2,486	2,420	2,375
Miscellaneous	55	60	67	55	75
Domestic	2,765	2,704	2,553	2,475	2,450
Trade[2]	1,546	1,021	871	632	3,861
Total	$ 4,311	$ 3,725	$ 3,424	$ 3,107	$ 6,311

OPERATING STATISTICS

for the years ended or as at March 31	2006	2005	2004	2003	2002
Average Revenue (per kilowatt-hour)					
Residential	6.4¢	6.4¢	6.1¢	6.1¢	6.1¢
Light industrial and commercial	5.5	5.5	5.3	5.3	5.3
Large industrial	3.6	3.5	3.4	3.4	3.3
Other	5.0	5.0	4.9	5.1	5.3
Trade[1]	7.8	9.7	6.8	6.2	18.7
Average Annual Kilowatt-Hour Use Per Residential Customer	10,846	10,722	10,761	10,476	10,695
Lines In Service					
Distribution (kilometres)[4]	55,224	55,254	54,617	55,734	53,748
Transmission (circuit kilometres)	18,234	18,286	18,300	18,284	18,025
Number of Employees[5]	4,203	4,396	4,406	6,013	6,144

[1] *Maximum sustained generating capacity.*

[2] *During fiscal 2004, in response to changes in United States accounting standards, BC Hydro amended its accounting policy related to revenue recognition for trade activities that are supported by derivatives such as swaps, forward sales and options. The revenues and costs associated with these derivatives are presented on a net basis for fiscal 2003 to 2006. Revenues for fiscal years prior to 2003 have not been re-stated.*

[3] *The method used to calculate the trade revenue per kilowatt hour is based on gross trade revenues for fiscal 2003 to 2006.*

[4] *The method used to track the distance of the 3 phase underground power lines was changed in Fiscal 2004.*

[5] *Includes full-time and part-time employees of BC Hydro, and its subsidiaries. As of April 1, 2005, 318 employees were removed when BCTC became operationally and financiallly independent of BC Hydro. At April 1, 2003, approximately 1,600 employees were transferred to Accenture Business Services of British Columbia.*

TOTAL REQUIREMENTS FOR ELECTRICITY AND SOURCES OF SUPPLY

for the years ended March 31	2006			2005		2004	
	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Gigawatt-Hours	%	Gigawatt-Hours	%
Requirements							
Domestic	11,313	52,440	59.9	51,205	59.8	50,151	60.1
Electricity trade		29,906	34.1	29,706	34.7	28,373	34.0
		82,346	94.0	80,911	94.5	78,524	94.1
Line loss and system use		5,318	6.0	4,660	5.5	4,969	5.9
		87,664	100.0	85,571	100.0	83,493	100.0
Sources Of Supply							
Hydroelectric generation							
Gordon M. Shrum	2,730	14,628	16.7	11,738	13.7	14,567	17.4
Revelstoke	1,980	7,915	9.0	7,283	8.5	7,552	9.0
Mica	1,805	7,006	8.0	5,993	7.0	6,389	7.7
Kootenay Canal	580	3,300	3.8	3,339	3.9	2,507	3.0
Peace Canyon	694	3,580	4.1	2,981	3.5	3,604	4.3
Seven Mile	790	3,082	3.5	3,039	3.6	2,867	3.4
Bridge River	476	2,736	3.1	2,597	3.0	2,555	3.1
Other	1,164	4,603	5.3	4,631	5.4	4,499	5.4
	10,219	46,850	53.5	41,601	48.6	44,540	53.3
Thermal generation							
Burrard	950	39	0.0	456	0.5	136	0.2
Other	144	337	0.4	325	0.4	312	0.4
Purchases under long-term commitments		11,275	12.9	10,992	12.9	10,681	12.8
Purchases under short-term commitments		29,793	33.9	32,637	38.1	29,042	34.8
Exchange net		(630)	(0.7)	(440)	(0.5)	(1,218)	(1.5)
	11,313	87,664	100.0	85,571	100.0	83,493	100.0

glossary

Accenture Business Services for Utilities (ABSU)
Accenture Business Services for Utilities (ABSU) assumed responsibility for the performance of certain functions for BC Hydro on April 1, 2003. These functions include: Customer Services, Information Technology, Human Resources, Financial Systems, Purchasing, and Building and Office Services.

B.C. Energy Plan
A statement of B.C. government policy related to provincial energy matters issued by the Ministry of Energy and Mines and Petroleum Resources in November 2002.

BC Clean Electricity
B.C. Clean Electricity is defined as "alternative energy technologies that result in a net environmental improvement relative to existing energy production." Examples may include hydro, wind, solar, photovoltaic, geothermal, wave and biomass energy, as well as cogeneration of heat and power, energy from landfill gas and municipal solid waste, fuel cells and efficiency improvements at existing facilities.

Biomass
Non-fossilized organic matter often used as fuel (e.g., wood waste).

British Columbia Transmission Corporation (BCTC)
The Crown corporation created by the government of B.C. in 2003 to plan, operate and maintain BC Hydro's high-voltage transmission system.

British Columbia Utilities Commission (BCUC)
An independent regulatory agency of the provincial government operating under and administering the Utilities Commission Act. Its responsibility is the regulation of public utilities under its jurisdiction and to ensure customers receive safe, reliable service and non-discriminatory, reasonable rates.

Carbon dioxide equivalent (CO2e)
The standard measure for greenhouse gas emissions, expressing the global warming potential of various gases over 100 years in terms of carbon dioxide equivalents.

CFT
Call for Tender.

Certificate of Public Convenience and Necessity (CPCN)
A certificate issued to a public utility by a regulatory body such as the British Columbia Utilities Commission, for the construction or operation of a generating plant.

CFC-11
Chlorofluorocarbon (CFC), an ozone-depleting gas. CFC-11 is used in refrigerators, air conditioners, spray cans, solvents, foams and other applications.

cfs
Abbreviation for cubic feet per second.

CH_4
Methane (natural gas).

CO
Carbon monoxide.

CO_2
Carbon dioxide.

Cogeneration
The simultaneous production of electrical or mechanical energy and useful heat energy from a single fuel source. For example, forest sector mills can burn wood waste in a boiler to generate electricity and use low-temperature steam from the generator in pulping processes.

COMA per customer ($)
COMA per customer is defined as gross recurring capital expenditures (net of Telus recoveries) and operations, maintenance and administrative expenses divided by the total number of customers.

Customer-Based Generation
A BC Hydro initiative to buy electricity from large customers through a competitive bidding process.

glossary

Decile
Measured performance within the top 10 per cent or above the 90th percentile.

Decommission
To take a piece of equipment such as a generation or transmission facility permanently out of service.

Demand-Side Management (DSM)
Actions that modify customer demand for electricity, helping defer the need for new energy and capacity supply additions.

Engineer-in-Training (EIT)
A BC Hydro program that provides on-the-job training for qualified engineering graduates.

Energy Purchase Agreement (EPA)
The contract that defines the terms and conditions by which BC Hydro purchases electric energy from Independent Power Producers (IPPs).

Equipment Health Rating (EHR)
An objective, standardized condition assessment process for evaluating and reporting on equipment condition. EHR has been developed to evaluated six major equipment types (generators, exciters, turbines, governors, transformers and circuit breakers) and protective coatings.

Federal Energy Regulatory Commission (FERC)
A U.S. agency that regulates the interstate transmission of natural gas, oil and electricity.

First Nation
Either an Aboriginal governing body, organized and established by an Aboriginal community, or the Aboriginal community itself.

First Quartile
Measured performance within the top 25 per cent of a study, group or class or, above the 75th percentile.

Gigawatt hour (GWh)
One billion watt hours; one million kilowatt hours (an amount of electric energy that will serve about 100 residential customers for one year).

Gigajoule (GJ)
One billion joules of energy. A joule (J) is a metric unit of measurement for heat energy.

Greenhouse Gas (GHG)
Gases that trap heat in the atmosphere and are thought to contribute to global climate change, or the "greenhouse effect," including carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N2O) and sulphur hexafluoride (SF_6).

GHG offset
A project that compensates for GHG emissions from one source by lowering, avoiding or capturing and storing emissions at another source.

Global Reporting Initiative (GRI)
A series of guidelines for sustainability reporting recommended by the GRI, a joint initiative of the U.S. non-government organization, Coalition for Environmentally Responsible Economies, and the United Nations Environmental Programme. Its goal is to enhance the quality, rigour and utility of sustainability reporting.

Graduate Technologist-in-Training (GTT)
A BC Hydro program that provides the skills, knowledge and experience required to become a fully qualified technologist in one of four areas: Customer Projects & Operations, Protection & Control, Engineering and Transmission Maintenance.

Green Power Certificates (GPCs)
Green Power Certificates are a Power Smart product offering green electricity which is 100% generated in B.C. to domestic customers on a pilot basis. GPCs represent the environmental and social attributes of green electricity, separated from the electrons themselves. Each Green Power Certificate has a face value of one megawatt hour of electricity generated at qualified green generation facilities. Powerex, BC Hydro's power marketing subsidiary, is also piloting the sale of GPCs in the electricity marketplace.

ha
Hectares.

glossary

Heritage Contract
A 10-year, up to 49,000 gigawatt hour per year contract between BC Hydro's Generation and Distribution Lines of Business to ensure BC Hydro customers benefit from BC Hydro's existing low-cost hydroelectric and thermal resources.

Hydroelectricity
Electricity produced by harnessing the power of falling water or streamflow.

Integrated Electricity Plan (IEP)
The process of long-term planning of electricity generation, transmission facilities and demand-side resources to reliably meet forecast requirements.

Independent Power Producer (IPP)
Operator of a privately owned electricity generating facility that produces electricity for sale to utilities or other customers.

Integrated System
An interconnected network of transmission lines, distribution lines and substations linking generation stations to one another and to customers throughout a utility's service area, but excluding isolated customers who are connected to free-standing generating plants.

ISO
Independent System Operator.

ISO 14001
The international standard for environmental management, introduced by the International Standards Organization (ISO) in 1996 and updated in 2004.

Kilotonne (kt)
One thousand metric tonnes.

Kilovolt (kV)
One thousand volts.

Kilowatt (kW)
One thousand watts; the commercial unit of measurement of electric power. A kilowatt is the flow of electricity required to light 10 100-watt light bulbs.

Kilowatt Hour (kWh)
One thousand watts used for a period of one hour; the basic unit of measurement of electric energy. On average, residential customers in B.C. use about 10,000 kWh per year.

Kyoto Protocol
The United Nations Framework Convention on Climate Change entered into force in 1994. The Kyoto Protocol, which sets out more specific, binding commitments, followed in 1997. The Protocol, which still requires ratification by other countries, seeks to reduce overall emissions of greenhouse gases such as CO_2 (carbon dioxide), CH_4 (methane), and N_2O (nitrous oxide) by at least five per cent below 1990 levels in the commitment period of 2008 to 2012.

Large Final Emitter (LFE)
As defined by the federal government, LFE includes firms in both upstream and downstream oil and gas sectors, electricity generation and mining and manufacturing, such as cement plants and steel mills. The LFE Group has an aggregate greenhouse gas reduction target of 55 million tonnes per year.

Load Forecasting
Determining an estimate of load requirements for some future time.

Long-Term Acquisition Plan (LTAP)
BC Hydro's long-term plan to acquire future energy resources.

Megatonne (Mt)
One million metric tonnes.

Megawatt (MW)
One million watts; one thousand kilowatts. A unit commonly used to measure both the capacity of generating stations and the rate at which energy can be delivered.

glossary

MWh
Megawatt hour (1,000 kilowatt hours/kWh).

N_2
Nitrogen.

N_2O
Nitrous oxide.

National Energy Board (NEB)
A Canadian federal regulatory agency.

Net Metering
A program that allows customers with their own generation facility to "bank" their surplus electricity with the electric utility. This banked surplus is then applied against the amount of electricity supplied by the utility.

NH_3
Ammonia (anhydrous).

Non-Integrated Areas
Utility service areas that are not connected to the integrated system. These areas are supplied by local diesel generation or hydroelectric generation.

NO_x
Oxides of nitrogen, including NO and NO_2, expressed as NO_2 equivalent.

Outage
A planned or unplanned interruption of one or more elements of an integrated system.

PCB
Polychlorinated biphenyl, any of several toxic compounds containing two benzine molecules in which hydrogens have been replaced by chlorine atoms, formed as waste in industrial processes.

Peak Capacity
The maximum amount of electrical power that generating stations can produce in any instant.

Peak Demand
The maximum instantaneous demand on a power system. Normally the maximum hourly demand.

PLT
Power Line Technician.

PowerOn
The power outage reporting system for BC Hydro customers that provides information on the location and expected duration of outages.

Power Smart
BC Hydro's demand-side management (DSM) initiative to encourage energy efficiency by its customers. Launched in 1989, Power Smart includes a full range of DSM programs aimed at BC Hydro's residential, commercial and industrial customers.

psi
Pounds per square inch.

Resource Expenditure and Acquisition (REAP)
This is a capital spending and resource acquisitions proposal filed with the British Columbia Utilities Commission (BCUC). It includes a comprehensive outline of BC Hydro's plans for upcoming capital expenditures and resource acquisitions, two years of capital plans, details of a proposed Fiscal 2006 open call for 800 GWh of firm energy from larger independent power producers (IPPs) and up to 200 GWh of energy from smaller IPPs, a description of expenditures linked to existing electricity purchase agreements and a two-year demand side management plan.

Resource Smart
BC Hydro's program of improvements to existing power generation facilities to increase supply-side efficiency through physical and/or operational modifications.

Right-of-Way (ROW)
Rights to make use of land owned by another to allow the construction and operation of electrical transmission or distribution facilities.

glossary

Self-Generation
Generation of electricity by an industry or commercial enterprise whose principal product is not electricity. Self-generation can reduce the amount of electricity purchased from the utility, or surplus electricity may be sold to the utility as a supply-side resource.

Spot Market
Real-time and day-ahead purchases and sales of electricity or other commodities, any market purchases or sales outside of long-term contracts.

Stepped Rate
A rate structure for transmission class customers, prescribed by the B.C. Energy Plan that will use different price levels so incremental consumption will be priced at incremental cost.

Stakeholder
Individuals, groups or representatives of groups who have an interest in BC Hydro's activities. First Nations, municipal governments, environmental organizations and employees are a few examples of BC Hydro's stakeholder groups.

Sulphur Hexafluoride (SF_6)
A greenhouse gas used as an insulating and protective gas in transmission equipment.

Thermal Generation
Generation of electricity by converting heat energy into electric energy through the controlled combustion of fossil fuels or biomass.

Triennial
Every third year.

Voluntary Challenge and Registry (VCR) Inc.
A non-government organization that encourages Canadian companies to voluntarily reduce GHG emissions and report on their progress.

Water Licence
The authority granted by the Comptroller of Water Rights of the Province of British Columbia to use, store and divert water.

Water Use Plan (WUP)
A plan, authorized under the B.C. Water Act, describing operating rules and boundaries for facilities on public waterways. BC Hydro's Water Use Plans are developed from a multi-stakeholder review process designed to address the varied interests for water use (e.g., fish, recreation and habitat management) associated with existing and new electricity generation and storage facilities.

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1. BC Hydro - Periodicals.

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